

FINANCIAL TIMES

World News Business Summary

Baker rejects fresh China trade and aid sanctions

James Baker, US Secretary of State, rejected a package of further sanctions against China approved in the House of Representatives by 418-0.

Swiss Bank to redirect operations after losses

SWISS Bank Corporation, second largest Swiss bank, announced that it would redirect its international investment banking operations after two years of large losses.

Uno still pressed Japan's Prime Minister

Japan's Prime Minister Sonosuke Uno met groups of religious leaders and women executives in a bid to overcome his image as a womaniser.

Kremlin meeting The Soviet Union's Communist leadership

The Soviet Union's Communist leadership gathered for a meeting which may have brought changes in the party's ruling Politburo.

EC ethnic protest The European Commission

The European Commission is to delay the next round of talks with regard to protest over the Sofia government's expulsion of ethnic Turks.

Global peace move Non-aligned countries

Non-aligned countries issued a statement to the United Nations to strengthen the role of international law in settling disputes.

PLO asked to talk Robert Palastrom, US ambassador

Robert Palastrom, US ambassador to Tunis, stated meetings with a range of Palestine Liberation Organisation leaders as part of an effort to break the PLO-US impasse.

Czech arrests Czechoslovak police

Czechoslovak police arrested four men linked to dissident groups on charges relating to arson and murder.

Bridge allegations Denmark and the European Commission

Denmark and the European Commission are hearing for a row over allegations of unfairness in the award of a Danish contract for a steel and rail bridge.

Warrants issued A judge issued arrest warrants

A judge issued arrest warrants for four executives of Ford Motor Company's Venezuelan subsidiary for alleged corruption in the purchase of preferential-rate dollars.

Appartheid meeting 120 white South African liberals

120 white South African liberals met in London to discuss the world conference with the African National Congress on ways of ending apartheid.

Hungarian protest Hungarian wheat farmers

Hungarian wheat farmers jammed roads out of the capital Budapest with harvesters, trucks and tractors in a brief strike for higher prices.

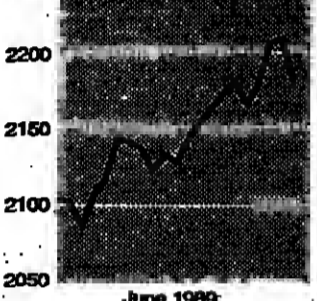
Marxists come threat Former Philippines President

Former Philippines President Marcos was in a semi-coma, Hawaii officials said.

Open casino A new top security prison

A new top security prison in Queensland, Australia, has altered its electronic security system after being warned that radar interference from a neighbouring air base could open all the cell doors.

FT-SE 100 Index



Haughey forced to quit in Irish constitutional crisis

By Kieran Cooke in Dublin

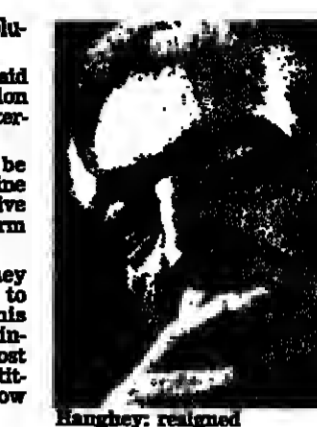
MR CHARLES HAUGHEY, the Irish Prime Minister, was forced to resign last night after losing a vote in the Dail, the Irish Parliament, on his continued leadership of the country.

Mr Haughey immediately went to Dr Patrick Hillery, Ireland's President, to inform him of the situation. Mr Haughey is to stay on as the country's caretaker prime minister until the Dail meets again on Monday to elect a new government.

Mr Haughey's resignation was announced by high political drama and considerable constitutional confusion. At first he had refused to resign. Mr Haughey's Fianna Fail Party, in power for the past two years, lost Dail seats in a recent general election, though it is still the largest political group in the Dail.

Yesterday Mr Haughey first lost the Dail vote on his nomination to continue as prime minister by 76 votes to 86. Mr Alan Dukes, leader of the main opposition Fine Gael Party and Dr Dick Spring, leader of Ireland's small Labour Party also failed to be nominated as prime minister.

Mr Haughey then proposed that he stay on as prime minister and the Dail meet next week to revise the situation. In the meantime talks on forming a new government should be held between the various parties.



Haughey: resigned

Bundesbank leads round of rate rises throughout Europe

By Simon Holberton in London and Andrew Fisher in Frankfurt

WEST GERMANY'S Bundesbank yesterday led a coordinated round of interest rate rises throughout Europe with an increase of half a percentage point in its discount and Lombard rates to 5 and 7 per cent respectively.

The Bundesbank's decision, which took West German interest rates to their highest level since December 1982, was taken to damp potential inflation, keep money supply growth at a moderate pace, and strengthen the D-Mark.

The action by the West German central bank's policy-making council was also part of a carefully orchestrated rise in interest rates by most members of European Monetary System.

Another rise in rates was likely to be sanctioned. Soon after the decision was announced, the Netherlands, Belgium and Denmark, together with Austria and Switzerland raised their main money market interest rates.

The dollar closed in London less than a penny lower against the D-Mark at DM1.9655, having recovered from a low of DM1.9450. Sterling, however, was driven lower, ending more than 2 pence down at DM3.0850.

OECD predicts industrial slowdown

By Peter Norman in Paris

TIGHTER monetary policies over the past year are expected to produce a "significant slowdown" of growth in the industrial world, the Organisation for Economic Co-operation and Development said yesterday.

Leading Italian bank takes 5% of Salomon

By David Lascelles, Banking Editor, and John Wyles in Roma

ISTITUTO San Paolo di Torino, one of Italy's leading banks, is to spend about \$150m (577m) acquiring a 5 per cent stake in Salomon, the Wall Street investment bank, under a co-operation agreement announced yesterday.

Thatcher rejects Delors blueprint

By Philip Stephens, Political Editor

MRS Margaret Thatcher, the British Prime Minister, yesterday bluntly repudiated the blueprint for full economic and monetary union set out in the Delors report and pledged that Britain would put forward an alternative plan for a much looser system of co-operation between European Community governments.

Commons on this week's Madrid summit, Mrs Thatcher also appeared to confirm that she has virtually ruled out full participation in the European Monetary System until after the next general election, due in 1992 at the latest.

Mr Baker hinted that the general approach to Eastern Europe might follow the lines of the agreement at last year's seven nation summit in Toronto on providing debt relief for poor countries of sub-Saharan Africa.

Mr Baker acknowledged yesterday that there were differences within the Paris Club as to whether or not World Bank loans should await completion of an International Monetary Fund programme.

Mr Baker noted the scope for bilateral assistance to Eastern Europe, giving the example of West Germany, which is Poland's main creditor and which is proposing to offer "flexible relief" on an existing loan.

US pushes for liberal approach to Poland's debt rescheduling

By Peter Hiddle, US Editor, in Washington

THE US is pressing for early agreement on a generous rescheduling package for Poland's debts by the Paris Club of creditor nations, with the help linked specifically to further progress on internal economic and political reforms.

Instead, the main immediate emphasis of the US and other western governments is on the Paris Club discussions on the rescheduling of Poland's official debts, which account for the bulk of its \$38bn external borrowings.

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MARKETS table containing financial data for Tokyo, Sterling, and Stock Indices. Includes columns for various indices and their values.

CONTENTS table listing various articles and sections in the newspaper, such as 'Has the UK Prime Minister's...', 'Eastern Europe...', and 'World...'. Includes page numbers for each item.

Table listing various financial services and contact information for Societe Generale Straus Turnbull Securities Ltd. Includes details about US & £ straight bonds, Japanese equity warrants, and other financial products.

EUROPEAN NEWS

Politburo change presaged in Kremlin meeting

THE SOVIET UNION'S Communist leadership yesterday gathered for a meeting which may have brought changes in the party's ruling politburo, Reuter reports from Moscow.

Soviet and foreign Communist officials said they understood the meeting of the party's policy-setting central committee was to discuss "organisational questions."

In Moscow parlance, this phrasing covers personnel changes - either promotions or dismissals. The 260-member committee is empowered to alter the make-up of the politburo. But foreign diplomats said they had heard the meeting could be rather a "consultation" to prepare guidelines for a committee session next month on nationality problems.

"There is definitely something going on," said a political analyst at a Western embassy. But the fact that Mr Viktor Nikonov, a member of the Politburo, was earlier yesterday officially reported in the Soviet Far East suggested the meeting was not a full plenum.

Any significant shift in the Kremlin power balance to the benefit of liberals or conservatives, terms now openly used by Soviet commentators, could clearly affect the future of Mr Mikhail Gorbachev's perestroika reform programme.

There was no firm word from any Soviet official on whether the meeting was taking place but two central committee members - one in Moscow and one in the provinces - were not in their offices. An aide to the first said he was at "a high-level meeting." An aide to the second said he had been called to

Moscow suddenly on Wednesday and was expected back at the weekend.

Mr Gorbachev and senior colleagues yesterday attended a morning session of the Supreme Soviet, the upper chamber of the country's new parliament, which is discussing the composition of a new government. As President, Mr Gorbachev chairs meetings of the body and also of its parent Congress of People's Deputies.

At the last central committee meeting to discuss organisational matters, held on April 25, Mr Gorbachev obtained approval for the departure from the party's top bodies of 110 veteran figures generally regarded as conservative.

One change widely expected is the promotion of First Vice-President Anatoly Lukyanov, a Gorbachev ally and long-time personal friend, from the politburo's junior, or non-voting, ranks to join its present 11 full members.

The next party congress is due to be held in early 1991 but Mr Vadim Medvedev, the Kremlin ideologist and politburo member, has said twice over the past week that he believed it could be brought forward.

"The Soviet people will have to wait at least two more years for perestroika to improve their standard of living, a senior Kremlin adviser said on Thursday, Reuter adds.

"Given their high level of education and scientific achievement...our people deserve a better life, not sometime in the year 2000 but now, tomorrow," leading Soviet economist Abel Aganbegyan told a business seminar, saying that improved supplies of food could take up to three years.

Terrible state of chassis in the Irish Dail

By Kieran Cooks in Dublin.

"THE WORLD," said Sean O'Casey, "is in a terrible state of chassis."

No better way to describe the present mess in Irish politics. "It is a very unusual situation," said Mr Charles Haughey, the Irish Prime Minister. "It is all perfectly clear," said Mr Alan Dukas, the leader of the opposition. "It's all a bloody great mystery to me," said the man in the Post Office.

The question is basically this: is Mr Haughey, or is he not, still the leader of the country? And, more to the point, does Ireland still have a Government? Yesterday the Dail, the Irish Parliament, met to nominate a Prime Minister.

It didn't. Mr Haughey was the first on court. He lost by 75 votes to 86.

Then it was the turn off Mr Dukas. Back to the changing rooms with a 61-103 loss. Mr Spring, leader of the small Irish Labour Party, took off his tracksuit and promptly lost by a big margin.

"The situation is unprecedented in the history of the state," said Mr Haughey. He said Dail deputies should think things over and come back to try to resolve things on Monday.

Oh no said the opposition. They had Mr Haughey on the run and wanted blood. Mr Haughey must throw in the

shirt, take the honourable course, do the decent thing, take an early bath. In a word, resign.

The opposition benches said the Irish constitution was clear. The Prime Minister had no alternative but to go.

Mr Haughey disagreed. He had taken advice from the Attorney General and, according to his constitutional interpretation, could stay on in a caretaker capacity.

The opposition was still not satisfied. The redoubtable figure of Dr Garret Fitzgerald, opposition member and former Prime Minister, said Mr Haughey was abusing the constitution. The proceedings adjourned.

Opposition members gathered to pore over the constitution. Others poured over the Dail bar. Only Mr Brian Lenihan, Ireland's ever popular Foreign Minister, emerged from the proceedings with his reputation enhanced. He has just undergone a liver transplant operation in the US and was given a standing ovation as he entered the Dail.

Mr Haughey, meanwhile, left the Dail chamber wondering whether or not he was still Prime Minister. Sean O'Casey would have been intrigued.

Clash over pay index averted in Italy

By John Wyles in Rome

A DANGEROUS deterioration in Italian industrial relations was narrowly avoided yesterday when employers agreed to retain the *scala mobile* system of wage indexation for another year in return a vague trade union commitment to help contain rising labour costs.

The unexpected settlement followed secret negotiations in the wake of an apparently abortive discussion on Tuesday. Final details were agreed yesterday morning after some wrangling over the form of words which imply union recognition that labour costs are becoming a problem.

The result is that Confindustria, the main representative of Italian industry and the three union confederations, are to study the "dynamic and structure" of labour costs "with the aim of encouraging behaviour on both sides which corresponds with the need for corporate competitiveness."

It is clearly the closest thing to an agreement on pay restraint that Confindustria felt it could achieve in the run-up to the renewal of key private sector pay deals in sectors such as engineering and chemicals at the year's end.

It has gone ahead with its threat to abandon wage indexation the atmosphere for these negotiations would have been seriously tainted, while the unions would have pulled out of discussions now under way on a package of important industrial relations reforms.

Mr Sergio Pininfarina, the president of Confindustria, said yesterday he was "very satisfied" with the agreement because it would "restore tranquillity" to the relationship with the unions. He repeated the complaint that the growth in Italian labour costs had been more than double that of other industrialised countries in the last year.

Confindustria acknowledges that the 10.5-11 per cent rise in labour costs this year owes less to the *scala mobile* than to a 12,000m (\$314m) cut in government subsidies on employers' social contributions. According to Mr Pininfarina the ratio between average take home pay and actual cost to the employer is now 2.26 in Italy compared to 1.6 or 1.8 in other countries.

He called for an urgent reform of social contributions yesterday at a meeting with Mr Ciriaco De Mita, the caretaker Christian Democrat Prime Minister, who was carrying out a round of consultations in his efforts to form a Government.

Before his Government resigned last month, Mr De Mita gave an undertaking that the subsidies on contributions would be restored next year, and the employers obviously want to see this commitment honoured in the next Government's programme.

Wages in Italy have been indexed against inflation for 14 years, but the degree of cover was greatly reduced in 1985 to around 40 per cent of the going inflation rate after a year of bruising confrontation at both industrial and political levels.

Both sides were congratulating themselves yesterday at having avoided another clash without any involving any of the politicians.

Foreign trade gap widens in France

By George Graham in Paris

FRANCE'S foreign trade deficit worsened sharply last month to FF6.6bn (\$640m), after seasonal adjustments, with a marked deterioration in France's trade performance for industrial goods.

The industrial goods deficit deepened to FF6.6bn from FF4.4bn in April, despite the export of eight Airbus airliners worth FF2.2bn, while France's traditional surplus in agricultural and food products narrowed to FF3.7bn from FF4.8bn in May. The energy deficit also worsened.

Mr Pierre Bérégovoy, the Finance Minister, said yesterday that the trade statistics confirmed his determination not to let domestic demand get out of control.

"We are not yet reaping the dividends from all the investments which have been made and which continue to be made at a rapid pace," he said.

May's trade figures, published yesterday by the customs department, show that exports fell by over FF1bn to FF22.6bn, after seasonal adjustments, while imports climbed by nearly FF2bn to FF24.8bn.

Somewhat more encouragingly, France appears to have improved its trading performance with its main industrialised partner, West Germany. The French trade deficit with

West Germany fell to FF1.8bn from FF2.7bn, although its deficit with the other ten countries of the EC widened. The deficit with Japan remained stable at FF2.4bn while that with the US widened slightly to FF2.4bn.

Interpretations of France's trade performance have varied widely. After the relatively modest deficits recorded in the first three months of this year, some economists had thought that the heavy investment by French industry over the last 12 months in new capital equipment was paying off in terms of competitiveness.

In April and May, however, imports of capital goods have again weighed on the trade balance, while exports of the same category of products have declined steadily.

Other economists, meanwhile, have criticised France's inadequate product specialisation as a cause of its persistent deficit in manufactured goods.

The Organisation for Economic Co-operation and Development, however, said in its half-yearly economic outlook, published yesterday, that French exports of manufactured goods might grow by 7 per cent both this year and next. The Paris-based organisation forecasts a trade deficit of \$10bn this year and \$11bn in 1990.



Mr Harilaos Florakis (left), leader of Greece's Communist Alliance, pictured yesterday emerging from the hospital ward in Athens where he had held talks with the ailing caretaker Prime Minister, Mr Andreas Papandreu. The Alliance is pressing for a coalition Government despite rejecting proposals from the Conservative and Socialist parties.

Commercial TV groups form defensive body

By William Dawkins in Brussels

FIVE EUROPEAN commercial television groups yesterday launched a joint body to defend the private television industry's interests in the European Community's single market.

The group, the Association of Commercial Television in Europe (ACT), is chaired by Mr Silvio Berlusconi, who also heads Fininvest, the Italian media empire.

He yesterday promised to defend the cause of free competition in broadcasting as well as the improvement of quality. "Every product is improved by free competition," he said.

The group, open to any private broadcasting company, also includes ITV of Britain, SAT1 of West Germany, France's TF1, and Luxembourg's CLT. It aims to provide a forum for exchanging ideas on ethics, EC regulations, programming and financing methods, said at ACT statement.

Mr Gaston Thorn, former European Commission president and now chairman of CLT, said it supported the Commission's broadcasting directive. This sets out a common legal framework for cross-border television transmission, and is currently awaiting member states' agreement after a last minute objection from several member states.

ACT will be among the first so-called European Economic Interest Grouping (EEIG), a new form of cross-border partnership which becomes possible under EC law on July 1.

The purpose of an EEIG is to promote or improve its members' performance. It is supposed to be a minor part of their activities and cannot employ more than 500.

Another example, being promoted by the Commission, is a partnership of EC electronics companies formed to promote European standards for high definition television.

Big consolidation forecast in Europe's broadcasting industry

By Raymond Snoddy

A WAVE of mergers and acquisitions in the European broadcasting industry, with deals totalling more than \$3bn in the past 12 months, is the beginning of dramatic structural change in a traditionally fragmented industry, according to a survey by consultants Booz Allen & Hamilton.

The survey of the top 100 mergers and acquisitions in the European broadcasting sector since January 1988 covered deals ranging from digital processing, video duplication, programme production and libraries to distribution of video and cinema distribution.

"The volume of mergers and acquisitions surprised even us," said Miss Janice Hughes, main author of the study.

"The process of change and commercialisation is already under way," she added.

External investors with interests as varied as water, construction, cars and hair care products are buying their way into broadcasting.

The arrival of companies such as Bouygues, Compagnie des Baux, Fiat, Matra and others suggests that Europe may be about to follow the US where large industrial concerns have taken control of the three main networks.

They are attracted to a growing industry which Booz Allen expects to be worth \$200bn a year by the year 2000.

"By financial market criteria, most European broadcasters are potential takeover targets especially when coupled with the revenue opportunities offered by deregulation," says Booz Allen.

In Britain, for instance, the Government intends to remove the present barriers to the takeover of broadcasting companies by 1993.

Many US media corporations are seeking access to "Fortress Europe" before 1992 but Europe's large media investors and publishing groups such as Bertelsmann, Hachette, Pearson (publishers of the Financial Times), Maxwell Communications, and News Corporation are also showing a strong desire to capture future television revenues.

"Strategic Partnerships as a Way Forward in European Broadcasting," Booz Allen & Hamilton 100 Piccadilly, London W1V 9EA. (no charge).

Lisbon to speed moves towards EMS entry

PORTUGAL SAID yesterday it would speed up moves to join the European Monetary System following this week's EC summit. Reuter reports from Lisbon.

"The cabinet decided to speed up the national studies with a view towards the appropriate Portuguese participation in the stages of the EMS which began in July 1, 1990," said a statement issued after the weekly cabinet meeting.

The first stage of the Delors plan, which takes effect on that date, steps up co-ordination of monetary policy and will eventually tie the escudo into a fixed band of exchange rates within the currency basket.

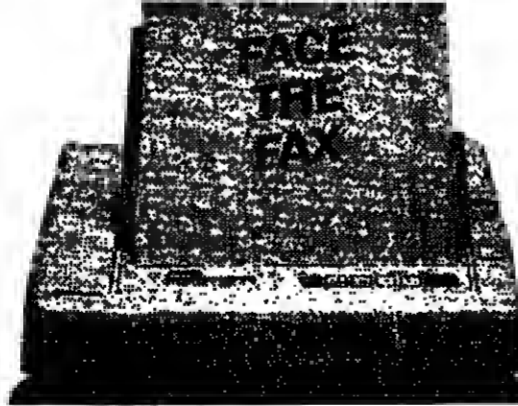
Portugal has resisted early entry to the EMS. Officials of the centre-right government cited high inflation, now running at about 13 per cent, and said Portugal would not join while Britain, a major trading partner, was outside.

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Form with fields for NAME, POSITION, COMPANY, ADDRESS, PHONE, and a small circular logo.

Swedish industry expects growth rate to decline

By Robert Taylor in Stockholm

THE SWEDISH economy is going through a period of "growth recession" which will worsen at least to the end of 1990, according to the latest forecast from the influential Federation of Swedish Industries published yesterday.

It suggests that, while the country's visible trade balance will continue to improve, going up from SKr28.6bn (£2.9bn) this year to SKr35bn (£3.5bn) next year, the balance of payments deficit will deteriorate further from SKr17.8bn this year to SKr18.0bn in 1990.

The report also believes that Sweden's economic growth rate will drop from 1.7 per cent this year to 0.5 per cent next, the lowest figure since 1981 and there will be a slowdown in the growth of private consumption from 1.2 per cent to 1 per cent.

Inflation is expected to increase by 7 per cent this year with a further rise of 6.5 per cent in 1990, much higher than the average for OECD countries. The level of wage increases will average 8.5 per cent this year and 6.0 per cent next. As a result, unit labour costs will remain a serious headache for Swedish industry, argues the prognosis.

Other independent economic forecasts published in the past few days confirm the gloomy conclusions of the Federation of Swedish Industries. Skandinaviska Enskilda Banken, the country's leading bank, is even more pessimistic. It predicts a balance of payments deficit of SKr20bn this year and as much as SKr25bn in 1990, while wage increases will average 9 per cent in 1989 and 8 per cent next year.

Economic commentators are criticising the emergency measures to cool down the Swedish economy, which includes compulsory saving because they will increase rather than reduce tax pressures.

Cracks widen in the Communist monolith

James Blitz and Judy Dempsey watch the Eastern bloc countries drift apart

EACH WEEK brings another example of an unstoppable process in Eastern Europe: the once monolithic Communist bloc is splitting up and the mutual distrust among its members is growing.

Last week, for example, both the Czechoslovak and East German propaganda chiefs launched blistering attacks on the Hungarian party leadership, after it had ceremonially renounced Imre Nagy, the Hungarian leader during the revolt against Soviet rule in 1956.

This week, the Hungarians have got their own back, broadcasting an interview with the Czechoslovak dissident, Vaclav Havel, on television. "Of course, everything that is happening in Hungary, Poland and the Soviet Union is a threat to our ruling clique (in Czechoslovakia)," he is reported to have said.

These attacks and counter-attacks reflect Eastern Europe's division over one fundamental issue: how to respond to Mr Mikhail Gorbachev's message of reform.

In one group stand Poland and Hungary which are carrying out political and economic liberalisation. In the other are the states now dubbed "the Gang of Four": East Germany, Bulgaria, Czechoslovakia and Romania, whose leaders show unflinching determination not to relax their grip on politics.

The Gang of Four's conservatism can partly be explained by its leaders. Bulgaria's Todor Zhivkov, Czechoslovakia's Miloš Jakes, East Germany's Erich Honecker and Nicolae Ceausescu of Romania all climbed the political ladder in the stagnant years of President Leonid Brezhnev.

So, too, did General Wojciech Jaruzelski, who introduced martial law in Poland in 1981 and is now carrying out political reform.

But Poland, like Hungary, has undertaken some attempts at economic reform in the past, so that the current political transition is not a complete break with the past.

The main effect of the ideological differences has been to foster alliances within the bloc, which, in turn, have fostered clashes. The recent tensions between Hungary and its hard-line allies have been preceded by previous ones, including:

- tensions between Hungary and Czechoslovakia over Budapest's cancellation of their joint project on the Gabčíkovo-Nagymaros dam;
- tensions between Hungary and Czechoslovakia over the official showing of a play by Vaclav Havel in Warsaw.

An even more ominous development in the relationships between the countries in the bloc has been the formation of tacit alliances. In March, for example, Hungarian television broadcast a two-part interview with Mr Alexander Dubcek, Czechoslovakia's leader during the 1968 Prague Spring. This led to a blistering outburst from Prague, with Prague Radio asking whether Hungary was still a socialist state.

More significantly, the East German authorities supported Prague's concern about the Dubcek broadcast, by reprinting several critical articles from the Czechoslovak media condemning the interview.

Indeed, this "tacit alliance" among the hard-line states goes beyond the East Berlin/Prague axis.

East Germany has also handed the glove of solidarity to Romania whose relations



natural obligation to stand by the local Communist party, in the course of such a crisis, East-West détente could be seriously undermined.

As a result, the Kremlin has resisted any inclination to join Western criticism of the Czechoslovak and East German leaderships which in recent months have clearly contravened the Vienna declaration on human rights. Stability is the Kremlin's watchword: the hard-line leaderships are useful if they keep their people under control.

Conversely, the Soviet leadership has expressed its concern about the recent election results in Poland, in which many party officials suffered defeats, by remaining silent about them. Hardly any comment on the result has appeared in the Soviet press, reflecting the Kremlin's anxiety about the impact of a weaker party on the stability of Polish society.

Poland is not Mr Gorbachev's principal worry, however. What may concern him more is the effect of the Hungarian and Polish reforms on Czechoslovakia, which has one of the most conservative leaderships in the bloc and the most restless population.

The defeat of so many Polish party candidates will have reaffirmed the Prague leadership's fear of introducing a multi-candidate election. And Poland's example of competitive elections will make the Czechoslovak people feel all the more isolated from democratisation.

Here, in a nutshell, is the Soviet leader's dilemma. He has adopted a policy of non-interference in East Bloc affairs, but as the chasm in Eastern Europe between reformers and hardliners widens, so the dissatisfaction of people in East Germany, Bulgaria, and, above all, Czechoslovakia, will grow.

Madrid mayor falls to attack by right

By Peter Bruce in Madrid

SPAIN'S DIVIDED and fractious right-wing opposition parties won an important, but possibly pyrrhic, victory yesterday by combining successfully to depose Madrid's Socialist mayor, Mr Juan Barzanano.

He has been replaced by Mr Agustin Rodriguez Sahagun, a 57-year-old former minister in the CD Government of Mr Adolfo Suarez in the late seventies and early eighties. Mr Sahagun is now a member of Mr Suarez's struggling centrist party, the Centro Democrático y Social (CDS).

Mr Barzanano's minority administration in Madrid was outvoted 29-24 yesterday afternoon in a motion of censure presented by the CDS and the much bigger Partido Popular (PP), led nationally by the former Francoist minister, Mr Manuel Fraga.

Despite an enduring personal rivalry between Mr Suarez and Mr Fraga, the CDS and PP decided two months ago to bring motions of censure in a several cities where Socialists govern with minor-

ties. Ironically, this played a key role in the CDS's bad losses in European Parliament elections two weeks ago.

Although the two parties have accused the Socialists of corruption and of bringing chaos to Madrid in their 10 years in power, it is highly unlikely that they will be able to effect changes quickly.

For one, their own political unity is suspect. Mr Sahagun has only been made mayor because, when the two parties made their censure pact, they thought they would be able to topple the Socialist government in Madrid province as well, and that this would be led by a PP nominee.

But that attempt has already failed, leaving Mr Fraga's party with nothing to show for its efforts to promote centre-right unity and inevitable difficulties in trying to secure posts for its people in the city government.

Mr Suarez, in an increasingly comical attempt to keep his distance from the PP, is still refusing to be photographed with Mr Fraga.

Key role for Britain in Soviet van project

By Kevin Done, Motor Industry Correspondent

THE Soviet Union has moved the location of an important new automotive project from Kirovabad in the troubled republic of Azerbaijan to Bryansk about 350km from Moscow.

Kirovabad was one of the cities worst hit by the wave of ethnic unrest that spread through Azerbaijan and Armenia late last year.

The project has been moved to a former military vehicle plant in Bryansk, which had substantial surplus capacity as a result of Soviet moves to reduce military expenditure and switch to operations for civilian use. The plant is believed to have manufactured trailers for SS-20 missiles, the intermediate-range missile to be eliminated under the 1987 INF Treaty.

The so-called RAZ project involves the building of the Soviet Union's first modern light commercial vehicle for which the finance and design and engineering is largely coming from the British.

The UK Export Credits Guarantee Department, Britain's official export credit insurer which is backing the finance for the design and engineering contract, yesterday disclosed the change of strategy by the Soviet authorities.

It said it was guaranteeing a \$25m loan to the Bryansk plant by the Bank of Scotland in a consortium with Barclays Bank, Moscow Narodny Bank and Morgan Grenfell to finance the project.

International Automotive Design (IAD), the Woking-based consultancy, was awarded the \$34.4m contract last year by V/O Machineexport.

The ECGD said yesterday that the IAD contract was for the design and development to production level of a medium/heavy panel van with a 1.5 tonne payload (3.5 tonnes gross vehicle weight). The vehicle would be tested in Britain and manufactured at Bryansk.

Additional tooling, plant and equipment is also to be supplied, and IAD will assist with the development of the manufacturing facility. It is understood that the project could eventually generate design engineering and plant and equipment orders to UK and Continental European companies worth £150m-210m.

It was disclosed yesterday that the Ricardo Group, the Shoreham-based engine and automotive engineering consultants, have signed an agreement with the Soviet Union for the development of a 2.5 litre, four cylinder diesel engine, which would be used in the RAZ vans. This agreement is still to be ratified.

The RAZ plant is being planned for an initial capacity to produce 30,000 vehicles a year and is scheduled to come into operation in the second half of 1992.

Most of the output is earmarked for the Soviet market, but some versions will also be specially produced for export to Western Europe.

Commission puts off Bulgaria trade talks

THE European Commission is to delay the next round of trade talks with Bulgaria, as a demonstration of EC disapproval of the Sofia government's expulsion of ethnic Turks, writes David Buchan in Brussels. Though Brussels still intends to reach a trade and economic co-operation accord with Bulgaria, as with other Comecon countries, the delay is another sign that the EC is co-ordinating more closely the political and economic elements of its policy towards Eastern Europe.

Metro - Light Rail Study Sunderland-Washington-Existing Metro, Tyne and Wear

Tyne and Wear Passenger Transport Executive are the operators of a modern LRT system in the Tyne and Wear Metro. Further opportunities for rail developments exist locally and a feasibility study is to be commissioned into the LRT potential on the Sunderland-Washington new town corridor and also the linking of the existing Metro System to Washington. Prospective tenderers are invited to submit proposals for undertaking the study.

There will be two phases to the study. Phase 1 will identify operational, financial and land use development impacts whilst recommending areas for further investigation in Phase 2. The work will commence in January 1990 and the report of Phase 1 should be completed by July 1990. The second Phase of the study will assess in greater detail two or three alternatives for development consideration. A final report of the study should be available by March 1991.

It is thought unlikely that a single firm would be able to satisfy all of the requirements of the study. The approach will necessarily be multidisciplinary encompassing transportation, economic, capital funding, land use development, engineering and contractual elements.

A detailed study brief is available upon request from: The Chief Planning Officer, Tyne and Wear Passenger Transport Executive, 100, Caithbert House, 100, Newcastle upon Tyne NE1 2DA.

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210 249	Barclay Group	195	-7	2.7	4.7 8.5
24 23	Barclay Group (SE)	22	-1	5.9	4.0 8.7
123 98	Bray Technology	98	0	11.0	10.5 -
110 105	Brenntag Co. Prof.	105	0	11.2	10.6 -
104 100	Brenntag 84% Bep. C.C.R.P.	104	0	14.7	8.8 -
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110 109	Carbo 7.5% Prof (SE)	110	0	12.7	1.4 26.3
685 325	Comet	325	0	12.7	1.4 26.3
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97 96	Jackson Group (SE)	97	0	7.5	6.2 12.4
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290 270	Taylor & Carlisle	290	0	10.7	9.2 -
117 100	Taylor & Carlisle Conf. Prof.	116	0	2.7	1.9 10.3
122 91	Trevelyan Holdings (USM)	96	0	9.3	7.6 -
127 106	Unistar Group Conf. Prof.	123	0	22.0	5.6 9.4
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OECD OUTLOOK

Industrialised nations' priority must be to curb inflation

By Peter Norman, Economics Correspondent, in Paris

THE MOST pressing task of industrial nations is to prevent inflation gathering momentum, according to the Organisation for Economic Co-operation and Development.

In its latest half-yearly Economic Outlook, the OECD says inflation in its 24 nation area has increased by a full percentage point over the past year and is currently running at an annual rate of around 4.5 per cent.

The OECD believes that monetary policies have been tightened sufficiently to cause inflation to stabilise at around current levels and then ease very slightly in the second half of 1990. But it said considerable uncertainty exists about the underlying strength of demand and inflationary pressures. Doubts also surround the extent and timing of the effects of monetary tightening.

The Paris-based think tank of the major industrial nations warned that further prompt monetary tightening would be required in the coming months if inflationary pressures turn out to be stronger than they appear at present.

Prompt action could be especially important in economies, like Britain, where inflation has already moved up to uncomfortably high rates.

The OECD said its latest projections suggest that 10 mem-

ber countries will experience price increases of more than 4 per cent in 1990. These are the US, Italy, Britain, Canada, Australia, Finland, New Zealand, Portugal, Spain and Sweden. Greece, Iceland and Turkey will have still higher inflation.

In these circumstances, "for many countries, merely to prevent an increase of inflation would be to fall well short of stated medium-term objectives," the OECD said.

However, the OECD Outlook recognises that the industrialised economies are "in substantially better shape than they were at the start of the 1980s."

The present economic upswing is in its seventh year. In 1988, the gross national product of the 24-nation group grew by more than 4 per cent, driven notably by a rapid expansion of investment. Productivity in OECD countries has generally improved since the early 1980s.

The average OECD unemployment rate has fallen to around 7 per cent, a level last seen in 1981. OECD employment has risen by 9 per cent, equivalent to 29m additional jobs, since its 1982 trough in the recession of the early 1980s.

But the OECD said governments must tackle a number of problems besides resurgent inflation to sustain this improvement.

Exchange rates have recently been unstable. The position of Third World debtor nations has deteriorated. Unemployment remains high in many OECD countries and in the OECD area is projected to increase to 28.25m next year from 27.5m this year. Youth and long term unemployment have been slow to decline. Savings rates need to increase to sustain investment.

In some countries budget deficits are too high while throughout the industrialised world more should be done to improve public expenditure and tax systems, the OECD said.

The OECD said these problems require action across a full range of policies - monetary, fiscal and structural. It said co-operation among OECD countries needs to be extended and strengthened beyond the monetary sphere.

It said structural reforms are required on a broad front to stimulate growth and employment and reduce the gap between the huge US current account balance of payments deficit and the large West German and Japanese surpluses.

According to the OECD, "the most pressing international priority" is to use the Uruguay Round of trade liberalisation talks effectively to strengthen the multilateral trading system and reduce the inefficiencies

and high costs of agricultural policies.

The OECD has estimated that current agricultural policies cost consumers 1 per cent of their income each year over and above the financial benefits to farmers.

It said mutual surveillance of structural reforms could help the world economy.

On exchange rates, the organisation made it clear that a further rise in the dollar's value or "the emergence of a strong and persistent downward pressure on it" could increase the policy problems faced by member governments.

Further upward pressure on the dollar could bring higher inflation to low inflation countries like Japan and West Germany and would hinder the process of reducing the current account imbalances.

Over the next 18 months the OECD sees a further reduction in the US deficit but some increase in dollar terms in the Japanese and West German surpluses. A sharp dollar fall would make it more difficult for the US to control inflation, and could push US interest rates to levels jeopardising economic activity.

"These alternative possibilities point to the need for co-operative actions across the full range of policies in order to minimise the risks of exchange rate pressures getting out of

hand," it said.

It noted that international monetary co-operation was aimed at broadly aligning the competitive positions among major countries. But countries should go further if they wished to reduce the current account imbalances. They should adjust the internal imbalances in their economies.

Besides the US, the OECD expects sizeable external deficits in Britain, Canada, Australia, Finland, Greece, Iceland, Portugal, Spain and Sweden. Outside Japan and West Germany, large surpluses are expected to persist in the Benelux countries and Switzerland.

It said countries in current account deficit should aim to raise national savings rather than squeeze investment. This could be achieved through cutting budget deficits where they exist and reducing tax disincentives to savings.

Countries with surpluses should remove structural impediments to investment in non-tradeable sectors of their economies and implement structural changes to boost domestic demand. The OECD specifically warned against relaxing budgetary discipline

because these countries, with ageing populations, face rising social security transfers and need strong government finances.

Looking at its main members, the OECD said "it is a matter of urgency" for the US to enact specific measures to eliminate its budget deficit as planned by 1993. It commented that the recent agreement between President George Bush and Congress on cutting the deficit "seems modest in respect of this objective."

In addition, the US must reform its troubled financial institutions and make a clear commitment to strengthening the multilateral trading system.

In a clear reference to recent US moves to brand Japan, India and Brazil as "unfair traders" under the super 301 provisions of the 1988 trade act, the OECD said it was especially important that the US "refrain from any action which would threaten the integrity of the Gatt system."

Japan should maintain

LATEST OECD PROJECTIONS

	1988	1989	1990
Real GNP (% change)			
US	3.9	3	2.25
Japan	5.7	4.75	4.25
W Germany	3.4	3	2.75
OECD Europe	3.5	3	2.75
Total OECD	4.1	3.25	2.75
Inflation (GNP/GDP deflators)			
US	3.4	5	5.25
Japan	0.4	1.5	2.25
W Germany	1.5	2.5	2.5
OECD Europe	4.9	5.25	4.75
Total OECD	3.6	4.5	4.5
Current Account Bal of Payments (\$bn)			
US	1988 -135.3	1989 -128	1990 -116
Japan	79.6	80	83
W Germany	48.5	48	53
OECD Europe	14.5	2	-1
Total OECD	-61.5	-68	-57
OPEC	-15.9	-8	-6
Non-oil LDCs	1.8	-5	-15
Unemployment (%)			
US	5.5	5.25	5.5
Japan	2.5	2.25	2.25
W Germany	7.9	7.5	7
OECD Europe	10.1	9.75	9.75
Total OECD	7.3	7	7.25
World Trade*	6.7	7.5	7

*Seasonally adjusted at an annual rate
*% change compared with previous period.

Source: OECD Outlook, June 1989

Worldwide monetary policies face up to first test

MONETARY POLICY in the industrialised world has been confronted with its first major test of containing a widely-based acceleration of inflation in an environment of substantially deregulated financial systems, the Organisation for Economic Co-operation and Development said.

In its latest half-yearly Economic Outlook, the OECD said the tightening of monetary policy over the past year has been a "trial and error" process.

It said it is not yet possible to make firm judgments on how monetary policy should be conducted in the new environment.

The risk of monetary overkill coexists with the danger that policy may not have been tightened sufficiently to control inflationary expectations.

The OECD said deregulation has begun to change the way in which monetary policy is transmitted to the economy.

In competitive financial systems, monetary authorities are able to influence a broad spectrum of short term market interest rates.

This means that monetary policy may have stronger effects on consumption.

It is, however, a less dominant influence on long term interest rates and investment spending than previously.

The main influence on investment is now likely to come only after tighter monetary policy has succeeded in slowing economic growth, or at least changing expectations about the outlook for economic activity, the OECD said.

The OECD commented that in general monetary policy is forced to work more at the margin with changes in interest rates influencing the desire for new borrowings.

This is likely to influence an economy more slowly than credit rationing.

In its report, the OECD expressed some concern about the sharply rising ratio of non-financial corporate debt to equity in the US.

It said the junk bond market has not been tested in a recession so that it is "not inconceivable" that some risks may be underpriced.

However, it said the overall health of non-financial business in the US and the relatively limited involvement of banks in the junk bond business suggest that the US financial sector is not facing major systemic risks at this stage.

Warning on UK unemployment

BRITAIN'S unemployment rate may start to rise before the end of this year, reversing the downward trend that has been seen since 1986, the Organisation for Economic Co-operation and Development warned.

In its latest review of the world economic outlook, the OECD said that the progressive tightening of policies since the middle of last year should be increasingly felt during the course of 1989.

The Paris-based organisation warned against expectations of an early easing of Britain's two major economic problems - high inflation and the huge current account balance of payments deficit.

Inflation is likely to remain "unacceptably high" throughout this year and next. The OECD forecast that consumer prices, as measured by the private consumption deflator, will average 3.75 per cent this year and 5.25 per cent in 1990.

The OECD said Britain's external deficit may fall a little in relation to the nation's gross domestic product over the next 18 months. But on its normal assumption of unchanged nominal exchange rates, it expects the current account deficit will widen in absolute terms as Britain's trade performance is

affected by a decline in its international competitiveness.

The OECD gives its current account projections in dollars, using the exchange rates of May 2, when the pound was worth \$1.6835. It forecast an increase in Britain's current account deficit to \$28bn (£16.63bn) this year and next, after \$26.1bn in 1988. Although the OECD said the deficit will drop to \$10bn in the second half of this year from \$15bn in the first six months, it projected an increase to \$11bn in the first half of 1990 and \$15bn in the second half 1990.

The report warned that the outlook for the UK economy is hedged about with considerable risks. The extent of inflationary pressures could be underestimated while the anticipated slowdown in demand growth might be less pronounced than expected because of problems with British statistics and the erratic movement of various indicators in recent months.

It is also unclear how far retail price inflation, which has been boosted by the inclusion of higher mortgage interest rates in the index, will feed into a wage-price spiral.

The OECD said British GDP growth is expected to decline significantly to 2 per cent in

1990 from 2.25 per cent this year and 3.7 per cent last year.

Private consumption is expected to slow sharply because of high short term UK interest rates. Business capital spending will be less affected because of relatively stable long term borrowing costs. However, the OECD said profit margins should be squeezed somewhat, damping business investment in 1990.

In response to slower output growth, the OECD said the increase in employment in Britain should decelerate with the employed workforce possibly dropping towards the end of 1990. The unemployment rate, which averaged 8.2 per cent last year, is expected to bottom out at 7 per cent in the second half of this year before rising to 7.5 per cent in final six months of 1990.

OECD Economic Outlook No. 45, June 1989, OECD 2 Rue André-Pascal, 75775 Paris Cedex 16, FFY100. Or through HM Stationary Office.

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S.G. Warburg & Co. Ltd. ("Warburgs") announces on behalf of DMWSL 032 PLC ("DMWSL"), a wholly owned subsidiary of Isosceles PLC, that, by means of a formal final offer document dated 30th June, 1989 (the "Final Offer Document") being despatched today to shareholders of The Gateway Corporation PLC ("Gateway"), Warburgs is making a mandatory and final offer (the "Final Offer") on behalf of DMWSL to acquire all the Gateway ordinary shares not already owned by DMWSL. Terms defined or referred to in the Final Offer Document have the same meanings in this advertisement.

The Final Offer comprises, for every 200 Gateway ordinary shares, £430 in cash and one Isosceles Unit (as described below). The cash amount is equivalent to 215p per Gateway ordinary share. Each Isosceles Unit will consist of one ordinary share of 1p each in Isosceles ("Isosceles ordinary share") and nine redeemable preference shares of 1p each in Isosceles ("Isosceles preference shares"). Salomon Brothers International Limited ("Salomon Brothers") have independently valued an Isosceles Unit at £60 to £70 under current market conditions, equivalent to 30p to 35p per Gateway ordinary share. On the basis of Salomon Brothers' valuation, the Final Offer is worth 245p to 250p per Gateway ordinary share. Alternatively, Gateway shareholders who accept the Final Offer may elect, pursuant to the Revised Cash Election, to receive all or part of their consideration in cash on the basis of 230p in cash for each Gateway ordinary share. Fractions of Isosceles Units will not be issued. Accepting Gateway shareholders who hold less than 200 Gateway ordinary shares and those who would otherwise be entitled to fractions of an Isosceles Unit will be deemed to have made the Revised Cash Election in respect of such fractions. Eligible Gateway shareholders who accept the Final Offer may also irrevocably elect, pursuant to the Final Partial Loan Note Alternative, to receive Loan Notes in respect of all or part of the cash consideration due to them, whether under the Final Offer alone or under the Revised Cash Election, on the basis of \$1 nominal of Loan Notes for every \$1 of cash consideration. If elections for Loan Notes exceed the nominal amount of Loan Notes available, such elections may be scaled down. Sufficient Loan Notes are available for all Gateway shareholders to receive 30 per cent of their total consideration in Loan Notes. The Final Offer will close at 1.00 p.m. on Friday, 14th July, 1989 and will not be extended beyond that time unless it has by then become unconditional. The Final Offer is subject only to valid acceptances being received (and not, where permitted, withdrawn) by 1.00 p.m. on 14th July, 1989 in respect of Gateway ordinary shares which, together with shares acquired or agreed to be acquired before or during the offer period (as defined in the City Code on Take-overs and Mergers (the "Code")), will result in DMWSL and parties deemed, for the purposes of the Code, to be acting in concert with DMWSL holding Gateway ordinary shares carrying more than 50 per cent of the voting rights exercisable at general meetings of Gateway (on such basis as may be required by the Panel on Take-overs and Mergers (the "Panel") and including for this purpose, to the extent (if any) required by the Panel, any votes attaching to any Gateway ordinary shares that may be unconditionally allotted or issued before the Final Offer becomes unconditional pursuant to the exercise of conversion or subscription rights or otherwise). The full terms of the Final Offer, the Revised Cash Election and the Final Partial Loan Note Alternative are set out or referred to in the Final Offer Document.

The Final Offer is not being made directly or indirectly, in or by the use of the mails or by any means or instrumentality (including, without limitation, the post, facsimile transmission, telex and telephone) of inter-state or foreign commerce or of any facilities of a national securities exchange of, the U.S.A. Persons wishing to accept the Final Offer should not use such mails or any such instrumentality for any purpose directly or indirectly related to acceptance of the Final Offer. The Final Offer does not extend to Gateway ADRs. The Isosceles Units, Isosceles ordinary and preference shares, the DMWSL ordinary and preference shares and the Loan Notes and the DMWSL Loan Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended, and accordingly are not being directly or indirectly offered, sold or delivered in the U.S.A. or to or for the account or benefit of any U.S. person.

Subject to the despatch of the Final Offer Document, the Final Offer will be capable of acceptance from and after 12 noon on 30th June, 1989. Subject to such despatch and with effect from that time, the Final Offer is by means of this advertisement extended to all persons to whom the Final Offer Document may not be despatched but who hold, or who are entitled to have allotted or issued to them, Gateway ordinary shares. Such persons are informed that copies of the Final Offer Document and the accompanying green Form of Acceptance are available for collection from Bank of Scotland, New Issues Department, Second Floor, Broad Street House, 55, Old Broad Street, London EC2.

This advertisement is published on behalf of DMWSL and has been approved by Warburgs, which is a member of The Securities Association, for the purposes of section 57 of the Financial Services Act 1986.

The Directors of DMWSL are responsible for the information contained in this advertisement and, to the best of their knowledge and belief (having taken all reasonable care to ensure that such is the case), such information is in accordance with the facts. The Directors of DMWSL accept responsibility accordingly.

30th June, 1989

CHAIRMAN NORTH WESTERN ELECTRICITY BOARD

The Secretary of State for Energy proposes to appoint a Chairman for the North Western Electricity Board (NORWEB), which provides electricity to more than 2 million customers in an area ranging north-west from Manchester and the Peak district, west from the Pennines and up to the Scottish border.

Headquartered in Manchester, the Chairman will have overall responsibility for the provision of services by the Board and the efficient management of a business with a turnover exceeding £1 billion. The successful candidate will provide sound leadership for over 8,000 staff. He or she will play the leading role in developing the future strategy of the business and in managing the proposed transfer of the business to the private sector.

Candidates will have an outstanding track record in the management of a major business, gained for example at board level in a major quoted company. The successful candidate will be someone of stature, politically sensitive and with good communication skills. Broad experience of dealing with the City would be valuable, and ideally candidates will have a personal knowledge of the north west of England.

Our client wishes to attract an outstanding candidate to this position and is offering an attractive pensionable salary, with a good range of benefits.

Replies, which should be received no later than 7 July 1989 and will be treated in strict confidence, should be sent to the Secretary of State's advisers on this appointment:

Anthony Saxton and Stephen Bampfyde
Saxton Bampfyde International plc
35 Old Queen Street, London SW1H 9JB

Trade in manufactured goods fuelling inflation

INTERNATIONAL trade in manufactured goods has emerged as a factor fuelling inflation in the industrial world, according to the Organisation for Economic Co-operation and Development.

In its latest Outlook report, the OECD said steadily rising capacity utilisation rates in most countries combined with rising currency values in nations with above average inflation have pushed up the prices of internationally traded manufactured goods by around 5 per cent over the past year.

This increase was higher than that of domestic producer prices or unit labour costs.

The OECD noted that manufacturing trade has grown strongly in recent years. It is now equivalent to more than 14 per cent of the gross national product of the 24

nation OECD area, having doubled since the early 1970s.

For much of this period, the growing trade in manufactures exerted downwards pressure on costs because of increased competition.

Now, however, manufactured goods prices are adding to inflationary pressures in a way previously associated with rising prices for imported raw materials.

The OECD said it expects the rise in export prices for manufactured goods will slow to between 3 per cent and 3.5 per cent annually over the next 15 months. But it said there is a risk of larger price increases as the OECD area approaches its capacity limits. This could make the organisation's projection of 4.5 per cent inflation for 1990 in the industrial world "more precarious."

SUN LIFE GLOBAL PORTFOLIO Societe d'investissement a capital variable

Notice of Annual General Meeting
Notice is hereby given that the Annual General Meeting of Shareholders of Sun Life Global Portfolio will be held at 14 rue Aldringen, Luxembourg on 12th July 1989 at 3.30 p.m. specifically, but without limitation, for the following purposes:

- To hear and accept:
 - the management report of the Directors
 - the report of the Independent Auditors
- To approve the statement of assets and liabilities and statement of operations for the period ended 31st March 1989.
- To discharge the Directors and the independent auditors with respect to their performance of duties during the period ended 31st March 1989.
- To elect the directors, specifically Claudia Arend, Roland Frising, Geoffrey Harrison-Dea, David W. H. Smith and John D. Webster, to serve until the next Annual General Meeting of Shareholders.
- To elect the independent auditors, specifically KPMG Peat Marwick Inter-Revision, to serve until the next Annual General Meeting of Shareholders.
- Other matters.

By Order of the Board of Directors
14, rue Aldringen
Luxembourg
19th June 1989

Note:
Approval of the above items of the agenda will require the affirmative vote of a majority of the shares present or represented at the Meeting with no minimum number of shares present or represented in order for a quorum to be present. Each whole share is entitled to one vote. A shareholder may act at any meeting by proxy.

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OVERSEAS NEWS

De Klerk keeps his cards close to his chest

Anthony Robinson examines latest policy from South Africa's ruling Nationalists

INTERPRETING the code words of the National Party's political manifesto has always been difficult. Its latest offering is no exception. There is comfort for those who believe it sets South Africa on the road to reform. Equally sceptics may point out that constant references to group rights suggest that, at the end of the day, there is no substantial change in the party's position.



De Klerk: tough road

Given the fact that its new leader, Mr F W de Klerk, needs to hold off challenge to the right and appeal to the left, this is not surprising. But the real test will come until the National Party is re-elected. It bears the hallmark of the party which fostered it - pre-occupation with ethnic groups and insistence that they must be the building blocks of a future political arrangement. But shows a new openness to individual rights and the need for getting black/white power sharing talks on the road.

The largest delegation of white South Africans yet to meet the banned African National Congress arrived in Lusaka yesterday for two days of talks, reports Nicholas Woodworth from Lusaka.

The two-day conference is being attended by a 117-strong delegation, organised by the white South African Five Freedoms Forum, and ANC president Oliver Tambo and senior ANC officials.

The South African delegation is a broad-based one made up of academics, businessmen, community organisers, women's groups and United Democratic Front members, and includes veteran parliamentarian Helen Suzman.

The talks come at a time when the ANC is making tentative moves towards negotiations with the Pretoria government and also development to encourage the development of the liberal Democratic Party. The conference will focus on the role of whites in bringing about change in South Africa.

Ultimately what the NP is offering is a re-bundled version of its views. Asked in interviews recently whether the party supported negotiations with the African National Congress (ANC), Mr Zach de Beer, of the former FFP contingent, stated clearly that it was in favour of including the ANC in talks because it believed that up to 50 per cent of blacks supported it. In which case it was logical to unban the ANC, release its leaders like Mr Nelson Mandela and talk.

That is pretty forthright language compared to the words of NP leaders or indeed to the "plan" which, in carefully unspecific terms, promises to defend group areas but allow "free settlement" areas for those who do not mind mixing; to uphold group rights but introduce a bill of individual rights and broaden the edges of group definition away from the purely ethnic; to uphold segregated education but provide subsidies for mixed schools.

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"What does this mean?" asked Peking radio rhetorically. "It means that the nation's economic retrenchment is at a critical stage, and the nation is fighting an uphill battle." In this situation, trade seems unlikely to recover with any speed.

Yet, while Mr Shaw urges tougher economic sanctions by the West, the practical steps taken by his government have been strictly limited. The refusal even to make the symbolic gesture of banning indirect trade is justified in Taipei on the grounds that there is no practical means of stopping it.

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There has been little sign so far of world condemnation of mainland China leading to a warmer acceptance of Taiwan internationally. Most European countries, including the UK from the start of this month, have begun to issue visas to Taiwanese travellers in Taipei. This is a novelty in that it requires an informal diplomatic presence, but it is mainly to ease trade relations and predates events on the mainland.

Mr Shaw says Taiwan, as the world's 18th largest trading nation, would like to join the General Agreement on Tariffs and Trade, but the indications from its trading partners are that the mainland would have to

approve and there are still difficulties over finding a formula to distinguish Taiwan from the People's Republic, which is applying to take up the seat vacated by nationalists in China in 1960.

One striking aspect of the response to the events in the mainland in Taiwan has been the relatively cautious public reaction of the main street. Fear of provoking mainland reprisals has meant that demonstrations in support of the democracy activists have been muted affairs compared with those in Hong Kong.

The crackdown caused a wave of selling on the Taipei Stock Exchange but the market quickly rallied to record highs and the panic was nothing to the recent scandal over surrogate stock trading accounts.

For this reason it is difficult to gauge the impact of the mainland events on domestic Taiwanese politics which has been undergoing a slow process of democratisation since martial law was lifted two years ago.

One argument particularly in the run-up to the legislative assembly elections due in December, is likely to be whether Taiwan should speed up its own political reform, but the most contentious issue is whether it should abandon its aspirations for unification with the mainland under non-Communist rule and opt for independent development.

This is the view of one faction within the Democratic Progressive Party, the main opposition party, even though its official line favours the more ambiguous objective of self-determination.

Some Taiwanese, particularly the younger generation born after the Communists seized power in the mainland in 1949, have the feeling that the mainland could whip up additional support for independence as the elections approach.

But Mr Shaw counters by arguing that revision over the crackdown in Peking has united opinion in Taiwan against this. The mainland Communists have simply shown that they are not rational human beings. An independent Taiwan would be a weak country afraid of an unscrupulous mainland which would have no compunction in asserting its authority.

The steady policy of the Kuomintang government with its emphasis on free enterprise, democratisation and continuing pragmatic contact with the mainland, coupled with outspoken condemnation of its Communist rulers, serves an important long-term purpose, he says.

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China business Page 8

China's customs service has published January-May 1989 trade figures which show an alarming growth in imports of 24.5 per cent over the same period last year.

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Hong Kong acts to curb insider trading

By John Elliott in Hong Kong

LEGISLATION aimed at curbing rampant insider dealing on the Hong Kong stock market was announced yesterday by the government.

The Securities (Insider Dealing) Bill, which tightens definitions of the practice and introduces new penalties is being gazetted today and is expected to become law by the end of the year.

This is the latest stage of Hong Kong's attempts to bring its securities markets up to international standards in the wake of the 1987 world markets crash which closed the local stock and futures exchanges for nearly a week.

Subsequent investigations have led to corruption charges being brought against senior stock exchange executives.

The definition of insider trading has been made more comprehensive to catch those contemplating a take-over bid as well as people using inside information. Also covered is dealing in securities of a related corporation, procuring or counselling someone to break the law, and promoting deals on an overseas stock exchange.

But the government has bowed to local pressure in the local community, where insider dealing is prevalent. It has decided not to follow international practice and make insider dealing a criminal offence. Instead those found guilty will face a series of civil penalties: disqualification from the directorship or management of a company for up to five years; the surrender of profits made or losses avoided; and payment of a fine up to three times the profits made or losses avoided.

Cases will be heard and penalties will be fixed by an Insider Trading Tribunal which was set up in 1978 but has not had any sanction apart from the power to publish its findings. The tribunal has only once been used.

Mr Stephen Ip, deputy secretary for monetary affairs, said yesterday that the government considered the sanctions were "tough". He added that it would reconsider the need for more severe measures in two or three years' time after it had reviewed the effectiveness of the new legislation.

President Mobutu Sese Seko of Zaïre, once reviled as a corrupt and brutal leader of one of the world's poorest countries, was welcomed in the US yesterday in his new role as Africa, reports Lionel Barber from Washington.

President George Bush congratulated the ex-African General for helping to open a dialogue between the Angolans and UNITA rebels and to bring about a ceasefire in the 14-year-old civil war.

President Mobutu is the first African leader to visit the White House under the Bush Administration. The two leaders exchanged a signed treaty aimed at promoting US investment in Zaïre. With the administration pressing Congress to approve \$60m in foreign aid for Zaïre, Mr Mobutu stressed his respect for improved human rights record.

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Uno: accused of saying he wanted to resign when he was drunk

Japan's ruling party leaders running scared

Ian Rodger on why the LDP is bracing itself for further blows

JAPAN'S ruling Liberal Democratic Party (LDP), reeling from a stunning by-election defeat last Sunday and from rumours in mid week that Prime Minister Souseke Uno wants to resign, is bracing itself for another big blow on Sunday in elections for the Tokyo metropolitan government assembly.

If the LDP showing is poor, Mr Uno may have to step down immediately, a move that would throw the party into fresh turmoil. Even if the LDP's showing is respectable, the political situation will remain volatile, with additional challenges for the rattled ruling party looming in July. These are the Paris economic summit and elections for half the seats in the upper house of the Diet (parliament).

The rapid succession of reverses to hit the LDP in the past few weeks have been stunning, by any standards, to the party that has ruled since April because of the unpopularity of the new VAT. The Takeshita cabinet's support level had virtually disappeared when it handed over to Mr Uno his desire to resign and his appointment as prime minister.

Whether intra-party pique had any part in the initial revelations about Mr Uno's womanising is uncertain, it has been astonishing that the prime minister's own aides have been so willing to leak stories about his desire to resign and his apprehensions about going to the summit.

All of this has been happening against the background of a precipitous fall in the LDP's popularity. The downward trend has been steeper since April because of the unpopularity of the new VAT. The Takeshita cabinet's support level had virtually disappeared when it handed over to Mr Uno his desire to resign and his appointment as prime minister.

Last Sunday's by-election in rural Niigata prefecture not only confirmed the trend, but suggested something more ominous. It was bad enough that the LDP vote went down by a third, but worse that the support for the victorious Japan Socialist Party (JSP) went up by more than a quarter.

According to the latest polls, the LDP is in for another nasty shock in the Tokyo assembly elections on Sunday. One indicates that LDP support has dropped from 34 per cent at the time of the last election in 1985 to 25 per cent. On the basis of other soundings, one analyst has forecast that the party, which holds half of the 126 seats in the assembly, will lose roughly 10 of them. Meanwhile, the JSP is expected to raise its standing from 13 to 24 seats.

Up for grabs

The forces in the Tokyo metropolitan assembly are not exactly typical of the nation as a whole. For one thing, Komoto, a minor opposition party in the nation, is the strongest opposition party in Tokyo. Also, the LDP government, Mr Shinichi Suzuki, who is not up for election) is popular in his own right. Local LDP candidates have also tried to distance themselves from Mr Uno and other national leaders.

Meanwhile, the LDP is already agitated over the elections for half the seats in the upper house of the Diet on July 23.

Of the 126 seats up for grabs, the LDP needs to win only 64 to maintain its majority, but party leaders have already accepted that they cannot succeed. Moreover, there is a growing feeling within the party that if it wins many fewer than 64 - some talk of only 40 - then a general election will have to be called.

A few analysts are already talking about the possibility of a coalition government being formed by the JSP and defected LDP members following a general election. But that is still a long way away and, as Mr Inoguchi said yesterday, "the Socialists themselves are still not preparing for that possibility."

Barring a miraculous recovery in the elections to come, the LDP is preparing to ditch Mr Uno. The only problem is finding a successor.

China records trade deficit of \$4.6bn

By Colina MacDougal

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With exports up less than 5 per cent in the first five months to \$18.1bn and imports of \$22.7bn China registered a trade deficit of \$4.6bn. This level of deficit might not be too worrying, but it is likely to worsen since China's industrial growth is heavily dependent on imported raw materials and intermediate goods, as well as items such as grain and energy which make up much of the trade.

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Political hostility blocks return of US oil companies to Libya

CHINA - THE BUSINESS VIEW

FT correspondents assess financial prospects in the wake of the country's domestic turmoil and conclude that recovery may be slow
The world demands a high price for a return to normality

By Robin Pauley, Asla Editor

THE CHINESE authorities have now been furiously at work for three weeks to rewrite recent history and try to explain away the brutal massacre of protesting students in Peking. They have used every aspect of the media to bombard the 1.1bn Chinese citizens with disinformation and hope that a new, tough line coupled with sustained propaganda will subdue the people and allow a return to normal.

The leadership has made quite clear that it wants trade and tourism, the sources of vital foreign exchange, to continue as before. But here they may have miscalculated. Previous abuses of human rights in China and intolerable behaviour in Tibet have failed to arouse much more than an angry growl abroad. But this time governments around the world have been deeply shocked by the

Peking Government's violence and angered at having believed so fervently that China was changing, becoming more tolerant and liberal. China may yet have to pay a price where it can least afford it: in its foreign exchange coffers and in its development.

It will be some time before it is clear whether China's new hard-line intolerance is temporary, or to be a more permanent feature; equally it will be some time before the impact of changes in investment and business intentions abroad is felt. But investigations around the world by Financial Times correspondents suggest that, while many businessmen are anxious to continue doing business with China or are waiting to see what happens next, the institutional support needed to facilitate such ventures - Government

support, export credit guarantees and the like - may be harder to come by. The 13 European Community states agreed at the Madrid Summit to call for postponement of requests for export credit insurance. This would be disastrous in the longer run for China's development ambitions. Trade has been vital in modernising and internationalising the economy. A lot is at stake. China's total foreign trade in 1988

was Rmb103bn, a rise of 25 per cent over the previous year. Exports were up 28 per cent and imports 28 per cent over the same period. China's top trading partners are Hong Kong, Japan, the European Community, the US and the Asian states with total trade of US\$72bn. All of the states within those trading groups have been unreservedly critical of China's behaviour.

But the alarm bells started ringing at the mention of trade sanctions, which if introduced would have an immediate, adverse impact upon the economy of the Crown colony.

HONG KONG Business fearing a sanctions backlash

By Michael Murray in Hong Kong

INTERNATIONAL moves towards economic sanctions against China are being anxiously watched in the Hong Kong business community, where the close links between the local economy and the giant north of the border ensure that any adverse effects will eventually be felt in the colony itself.

Bans on arms sales have been welcomed, even though a related tightening up on the transfer of technology could affect commercial enterprises. There has been a less enthusiastic response in the respect of a globally co-ordinated squeeze on new loans of a sort advocated by the European leaders at this week's Madrid summit, as this is likely to inhibit the much needed infrastructural development of China.

But the alarm bells started ringing at the mention of trade sanctions, which if introduced would have an immediate, adverse impact upon the economy of the Crown colony.

Attention is focused on the United States, where despite the opposition of the Bush administration there are moves afoot in Congress to end China's most favoured nation status, under which its goods enjoy market access at the lowest tariff levels accorded to the trading partners of the US.

The effect of such a move upon Hong Kong would be two-fold. First by curtailing the competitiveness of China's own exports, with tariffs quadrupling in some sectors, it would depress throughput at Hong Kong's container port, which serves large areas of southern China.

Second, it would be detrimental to sales of goods manufactured in China in the many joint venture factories operated by Hong Kong businessmen.

In 1988, some 23.1 per cent of Hong Kong's entire trade was with China, with most of the growth coming from re-export trade, largely reflecting the extent to which raw materials and parts are transferred across the border for assembly, and are then assembled and shipped back through the territory on their journey to overseas markets.

Re-exports to China grew by 57.7 per cent to HK\$4.8bn (\$7.89bn), while re-exports from China grew by 56.1 per cent to HK\$1.5bn. During the year, re-exports from China headed for the US grew by 55.8 per cent to HK\$43.2bn.

The indirect effect of an increase in US tariffs, or other punitive action from the European Community or Japan which targeted Chinese-made products, would be to hit corporate profits for the many Hong Kong manufacturing companies which have moved some or all of their production across the border.

It has been estimated that between one and two million people in Guangdong province work in Hong Kong-run factories - a number greater than the total manufacturing workforce of only 850,000 in Hong Kong itself.

"We view even the remote threat of trade sanctions as very serious indeed," said a spokesman for the Hongkong & Shanghai Banking Corporation, who argued that any such sanctions would deal a severe blow to Hong Kong's hopes of remaining a flourishing economy.

This view was echoed by Mr Martin Barrow, chairman of Jardine Matheson Group, who said that no-one would gain by trade sanctions, while they would make the situation much more difficult for Hong Kong.

The Hong Kong government has itself been wary of openly citing economic self-interest in opposing sanctions against China, concentrating its arguments upon the ineffectiveness of sanctions in influencing the Peking regime. But officials are clearly concerned about the knock-on effects of such moves upon Hong Kong, where confidence is already battered.

And an even greater fear lurks: that by confronting China with sanctions, the outside world will drive it into the very isolation and stagnation of the open door that officials in Peking have so far said they are going to avoid - in spite of the atmosphere of political repression.

UNITED STATES

Big stake mostly holding steady

By Rivka Nachama in New York and Nancy Dunne in Washington

BY 1988, just 10 years after the Communist Party had invited joint Chinese and foreign business ventures for the first time in three decades, at least 75 American companies were manufacturing products in China and more than 86 had each committed \$1m or more to joint-ventures, according to the US-China Business Council, a Washington-based organisation that represents more than 500 US corporations doing business with China.

AT&T agreed to a joint venture with the Chinese to make advanced transistors in Shanghai days before the Peking clampdown. Mr George F. Tauber, AT&T Asian marketing operations director, said: "We are not in a panic, we still regard China as a market for the future."

Windermere Corporation's president and chief executive officer, Mr David M. Friedman, said at close of business on June 7 that the company's factory in Boan county, Guangdong province, was still in operation, but that production was down as much as 30 per cent because of workers' fears and anxieties about political conditions there.

Boeing, the aircraft maker, intends "to maintain contacts in manufacturing and selling". It has 18 contracts with local Chinese companies in various provinces to produce parts for Boeing, as well as orders for 737s and 757s from CAAC, China's national airline.

A spokesman for Boeing Helicopters, which last January announced a \$100m order from the Chinese People's Liberation Army, said it was "business as usual". The order has not been made subject to the sanctions suspending military sales to China set by President George Bush on June 5.

"We have no intention of changing our business policy but implementation may be another matter," Mr Uli Sigel, the executive board member responsible for China, said.

Schindler invested 25 per cent of the original \$16m capital of China-Schindler Elevator Company, which operates plants in Peking and Shanghai. Last year the Swiss concern agreed to finance 40 per cent of an \$8m investment in Sochu-Schindler Elevator, which is modernising and expanding a factory in Sochu. The three plants in Peking and Shanghai.

Next, the big Swiss foods group, is involved in two joint ventures in Mongolia and one for instant coffee in the South. Neither plant is yet operational. Mr Francois-Xavier Perroud, Nestlé's spokesman, said, "We are going ahead with our investments with no illusions."

Ciba-Geigy, the chemicals group, said it did not yet know whether it would go ahead with a small investment in a joint venture with the Chinese state pharmaceutical organisation. Erection of the factory near Peking was the responsibility of the Chinese partner and Ciba-Geigy has not yet made its investment.

For many, the main incentive remains the potential of the Chinese market. Mr Fred Smith, chief executive of APV, a food processing company, said: "We have been trading with China for 30 years and, although it only represents about \$30m of our \$207m sales, in time it may become our principal market."

One decision now on ice is the plan by Saatchi & Saatchi,

the world's largest advertising company, to set up an office in Canton and a representative office in Peking.

However, Mr Timberlake believed that, for every postponed project, there was an equal number going ahead. He said companies with experience of trading with China were eager to re-start business so that competitors did not take advantage of the hiatus. He knew of no instances of disinvestment by UK companies.

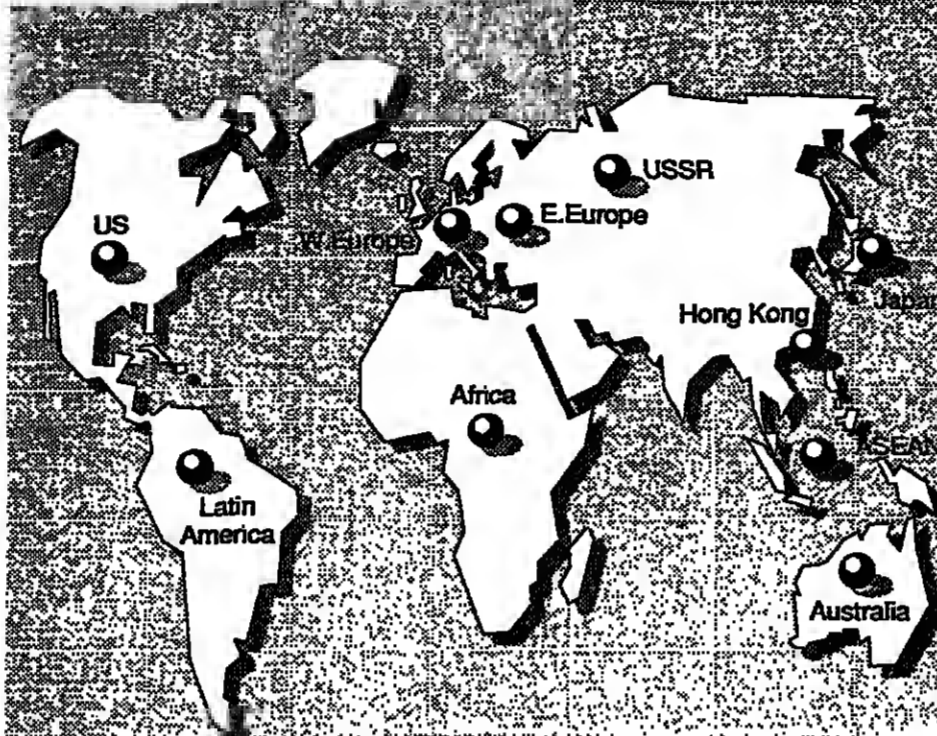
A common sentiment of UK companies was the desire to keep hard-won business. Mr Godfrey Barker, group finance director of Ricardo, consulting engineers, said: "It has taken a long time to get the business we have and we don't want to give it up."

Mr John Carr, regional sales manager at British United Shoe Machinery, said: "We have been trading with China for over 17 years and we can't suddenly stop."

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World trade with China since Richard Nixon opened the door in 1972



	Exports Imports US\$m		Exports Imports US\$m	
	1972		1988	
US	32.4	69.9	3,399	6,633
Japan	453.7	680.6	8,046	11,062
France	94.8	65.1	514.9	987
W.Germany	97.0	183.1	1,491	3,450
Italy	76.2	84.0	746	1,552
UK	80.9	85.2	659.2	898
Spain	19.3	0.2	134.3	319
Australia	53.0	50.3	361.5	1,113
Latin America	10.1	164.9	250.4	1,942.2
Africa	233.0	143.1	1,712.8	254.9
Hong Kong	229.1	59.8	18,239	12,005
ASEAN	230.4	187.1	2,891	2,925.2
	1978		1988	
USSR	230.0	207.0	1,476	1,802
E. Europe	666.0	685.0	1,272.4	1,500

SWITZERLAND

Business as usual for lift maker

By William Dullforce in Geneva

SCHINDLER, the Swiss lift manufacturer and the first foreign company to enter a joint venture in China in 1980, plans to go ahead with the investment in new plant at Sochu decided on last December.

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CANADA

Alcan to go ahead with joint ventures

By David Owen in Toronto

ALCAN Aluminium is proceeding with plans to build window manufacturing and remelt units at a C\$20m, 5,000 tonnes per year extrusion plant in Shenzhen SEZ.

The plant, which has been running for a year, is owned 55 per cent by the Chinese and 45 per cent by Alcan/Nikkei China, a joint venture between Alcan and Nippon Light Metals (NLM) of Japan. Alcan also owns 50 per cent of NLM.

Alcan is "continuing to communicate" on another unspecified joint venture project in its early stages. Babcock & Wilcox Canada pulled people from the operation of a joint venture boiler-making company in Peking's western suburbs, and two power plant construction projects near Peking and Shanghai respectively.

The boiler plant staff returned after a week. Staff at the power plants, being built in consortium with General Electric and Ansaldo of Italy, still have not returned.

Gemtrian Engineering Group has delayed sending people to China for technical discussions related to two contracts recently won to supply equipment and engineering services to two cooking oil refineries in Jiangsu province.

Dr Salomon Daniel, president, says the value of the contracts to Cambrian is about C\$2.2m. He says the company can delay the placement of sub-contracts for two weeks.

He says he has noticed no deterioration in business communications with Chinese officials. Like many others, he is

looking for guidance to a Canadian Government statement expected early next week. Klöckner-Stadler Hurter (KSH), 100 per cent owned by Klöckner of West Germany, recently won US\$22m contract to supply construction goods and services for a 50,000 tonnes per year caprolactam plant in Yueyang, Hunan province.

The consortium partners are Chiyoda of Japan and Stamcarbon of Holland. Dr Piero Biagiotti, vice president of business development, says: "Officially we have been told that an engineering meeting scheduled for July has been postponed. We know the reason for that is because they are not ready."

"We have also received a note from the Chinese through a tortuous route to say that any delay caused by us would be interpreted as retaliation."

China is the biggest overseas market for Canadian potash. Canpotex, the producer-owned consortium that handles these sales, sold 1.25m tonnes to the Chinese in 1988, against 900,000 tonnes in 1987. A spokesman said: "After slight interruption at the beginning of June, shipments have continued virtually on schedule."

Private bank exposure is relatively insubstantial. Canadian Imperial Bank of Commerce, the second biggest Canadian bank, has under C\$100m in commercial loans outstanding. Royal Bank of Canada, the largest bank, is involved in project financing in the coal sector at Island Creek of China Coal, but has recently focused on short-term trade financing.

FRANCE



YVES SAINT LAURENT (above), head of the fashion and perfume group, is pulling out of China in protest at recent events, writes George Graham in Paris.

Mr Pierre Bergé, YSL's chairman, has resigned his position as special counsellor to the Chinese Government on cultural and textile industry questions, and is cutting off the group's economic links with the country.

YSL will therefore stop deliveries to the counter it recently opened, with an investment of FF1m, in Peking's Friendship Stores. On the other hand, work at Daya Bay, the major nuclear plant under construction by France's Framatome, in conjunction with Electricité de France and Campeon-Bernard, is continuing and Jiang Xiaojing, head of the Chinese nuclear industry, said that Framatome is still discussing the possible construction of two new reactors at Qinshan.

Total French investments in China are estimated to amount to around FF785m, of which some FF770m are backed by government development loans and by official export credits.

NETHERLANDS

Traders try for business as usual

By Laura Raus in Amsterdam

GOOD DUTCH traders have never liked politics getting in the way of business and China is no exception. Dutch companies in China are trying to carry on with a business as usual attitude.

Philips, the Dutch electronics giant, has the greatest involvement in China through eight joint ventures and exports. Three joint ventures already are producing: a radio-cassette player factory in Peking, a laser optics plant in Shenzhen, and a car radio factory in Huzhou.

Another five joint ventures are supposed to come on stream over the next two years. They cover integrated circuits, lighting, TV picture tubes, glass fibre and video cassette frames.

"Nothing is decided" about the future of these ventures, according to a Philips spokesman at the company's Eindhoven headquarters. VMP-Stork, the Dutch engineering company, threw caution aside and boldly announced a FF10m contract from China on May 24, at the height of the political unrest. The contract is for construction of a dairy and a milk product factory in Zhejiang Province, both to be finished by the end of next year.

Hendel has invested "several million guilders" in a 25.5 per cent stake in the Shanghai Mita Brewery, which is also owned by Shanghai, Chia Tai of Thailand and Fraser & Neave.

It has been estimated that between one and two million people in Guangdong province work in Hong Kong-run factories - a number greater than the total manufacturing workforce of only 850,000 in Hong Kong itself.

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THE AID AND EXPORT CREDIT INSTITUTIONS

Harder line in the West begins to emerge

By Robin Pauley and Stephanie Gray

MORE than company decisions will govern the trade and commercial impact on China after the suppression of student protests. The attitude of institutions, particularly those dealing with export and trade credit guarantees, will be crucial; there are signs they may be tougher than expected.

The 12 European Community leaders at the Madrid summit this week called for the examination of any new Chinese requests for trade credit guarantees to be postponed.

Any general trade measures against Peking would involve the European Commission, which is the Community's commercial negotiator, while the issue of loans, export credits, and arms sales to China is for member states to decide.

The most important projects, concluded in the framework of the 1985 EC-China economic co-operation accord, involve development of the dairy sector, general rural development, biotechnology applications in agriculture and medicine, and nearly 50 industrial modernisation schemes, science, technology and energy.

Contrary to exporters' expectations, the West German Government has already announced that no more Hermes export credit guarantees will be available for China. Also, Bonn has decided not to disburse, for the time being, the 1989 development aid of nearly DM500m (€163m).

The Canadian Export Development Corporation said: "We are not saying it is business as usual, but it is not true to say that we have completely cut the [credit] pipeline." Requests for fresh credit, however, are understood to be very scarce.

EDC has C\$250m (€136m) to C\$500m in loans outstanding in China. Canadian aid to China totalled C\$98.4m in 1987-88, making it China's third largest donor.

Mr Roland Dumas, French foreign minister, has said that, as soon as there was a common European position, which emerged in Madrid, France would act. Government officials said French exporters had been unable to pursue any discussions on future contracts because there was no-one for them to talk to in Peking.

CoCom, the Western co-ordinating committee on multi-lateral export controls, has moved in recent months to relax controls on China, moving certain restricted products onto its Administrative Exemptions list, which allows a country to grant an export licence in specific cases. This relaxation is likely to be halted or even reversed now that European leaders have agreed to interrupt military co-operation and impose an arms trade embargo.

In Britain, the Export Credits Guarantee Department is continuing to look at requests for cover on projects on a case-by-case basis. Its biggest project by far is a \$400m facility covering the Daya Bay power station contract.

Officials at the UK Overseas Development Administration said that \$300m credit signed by Mr Christopher Patten, Overseas Development Minister, in Peking last September, was now "under review".

In Washington, the World Bank has put two loan proposals aside while it assesses the situation. Mr Barber Conable, the bank's president, said the executive board was consider-

ing action on some pending loans to China. The bank has about \$600m to \$700m in new loans to China in the pipeline.

Since 1981, when the World Bank set up in Peking, the International Development Association (soft-loan window) has approved \$3,046bn in loans, of which \$1.5bn is undisbursed. The bank itself has approved \$4.7bn in regular loans at commercial rates, of which \$2.5bn is undisbursed.

The US Eximbank's exposure at the end of the 1988 fiscal year was \$276.6m. Four preliminary commitments for funds have been approved - for an electric power generator loan for General Electric; telecommunication network expansion by AT&T; corn processing by Anderson International; tyre-making by Firestone.

If these US companies win those contracts, the deals will go ahead unless President George Bush officially denies Eximbank credits. Under the law, a preliminary commitment cannot be turned down, except for economic reasons, unless the president intervenes. There are many applications on hand but, in any

event, the Eximbank does not have the funds to proceed in the near future.

Baly's commercial relations with China have begun to boom over the last couple of years to the extent that the value of bilateral trade grew 30.6pc last year to about L3,560bn (€1.6bn). The result was a small surplus in China's favour of L160bn - the first such in the last four years. Italian companies are believed to have contracts worth more than L2,000bn in China while the Italian government has steadily increased its aid package this decade from \$10m at 1981-83 to \$260m, including \$40m of grants, for the 1987-89 programme.

Italy's credits insurance agency, SACE, has only modest exposure, worth L179bn, and until now China has been classified in the lowest category of country risk, which also includes the US and the rest of Europe. However, the recent upheavals have been followed by a growing volume of requests for export cover and the SACE is considering whether to impose tighter terms on Baly-Chinese trade.

ASTRONAUT WANTED NO EXPERIENCE NECESSARY.

GLAVCOSMOS, the Soviet Space Administration, has offered a place to a British astronaut on a space flight in 1991.

Whoever is chosen will have had no experience because no Briton has ever flown in space. He or she will automatically write themselves into the history books. It is fitting that the flight is scheduled to take off on the 30th anniversary of Yuri Gagarin's historic first manned space flight on the 12th April 1961. It will be called the 'Juno' Mission.

The flight touches down eight days later.

The First ANGLO-SOVIET Space Mission.

The eight days in space will be spent on the Soviet Space Station MIR from which the British astronaut will conduct scientific experiments. The MIR Orbital Space Station is a permanently operating 'laboratory in space' which has been orbiting earth since it first became fully operational in February 1988.

The British astronaut will become a full member of the Anglo-Soviet flight team fulfilling the tasks of an astronaut as well as conducting a series of scientific experiments. The mission is carrying no passengers.

The aim is to conduct a series of scientific experiments in space which exploit the virtual absence of effective gravity in an orbiting spacecraft.

The PURPOSE of the Mission.

Most of the microgravity experiments will be carried out in order to advance our knowledge in basic science.

Others will demonstrate important principles in education and a few will test advances in space technology. The work will encompass biological experiments involving plants, cells, bacteria, and the astronaut.

Experiments in material science will include the growing of crystals, particularly of proteins, possibly the development of alloys, and the study of fluids under conditions which it is not possible to replicate on Earth.

The First COMMERCIAL Space Flight.

The mission is the first commercial joint venture between the Soviet Space Administration and British industry.

In fact it's the first ever commercially supported manned space mission of its kind anywhere in this world. (Up until now commercial opportunities in space have

been limited to unmanned satellite launches) The mission will be funded by companies paying for the research capabilities of the mission as well as by sponsorship. (Previous flights from both East and West have been funded by their governments or space agencies and although it will be the first private enterprise space mission, it is operating with the full knowledge and consent of the respective governments).

This will without doubt be just the first of many commercial flights into space, as space becomes an increasingly viable product both academically and commercially.

The catalyst behind the mission is the Moscow Narodny Bank.

How is The Mission FINANCED?

This is a City of London bank which this year celebrates its 70th birthday as an established British incorporated bank.

It specialises in joint ventures and project finance and has provided the seed finance for the marketing and sponsorship raising campaigns. By co-operating closely with Licensintorg (foreign trade agents for Glavcosmos), the bank helped Glavcosmos enter commercial markets,

internationally, for the first time. The Russian word for it is Perestroika.

The mission will raise £16M in revenue from the research capability and sponsorship. Commercial organisations will be able to sponsor the flight, the astronaut, or even supply products or services for the mission.

There will naturally be a programme of media events providing coverage of the mission around the world and it will also generate educational programmes, exhibitions and lectures.

The selection process for the British astronaut,

Who's at The Mission CONTROLS?

and the design and construction of much of the equipment which will be used to carry out the experiments devised by industry and universities, will be carried out at Brunel University.

The Brunel Institute for Bioengineering is one of the very few organisations in the UK with experience in the microgravity field and will act as the focus for this work.

Your OPPORTUNITY to Make History.

The chance to become the first Briton in

space is open to both men and women.

Applicants will be aged 21-40 and possess a formal scientific training in either biology, applied physics, engineering or medicine, combined with good manual dexterity.

Successful applicants will have proven ability to learn a foreign language and have a high standard of medical fitness. They will also have the ability to work as a member of a team and communicate easily with people from a different background and culture.

Candidate assessment starts this month and

The SELECTION Process.

at later stages will include a series of demanding medical, psychological, aptitude and stress tests.

These will be completed by November 1989 when two final candidates will be selected to undergo a full schedule of training in the Soviet Union at the Gagarin Centre, Star City. One candidate will fly on the

mission, whilst the other acts as back-up with duties in the running of control experiments at ground level which will be based at a laboratory close to the launch site.

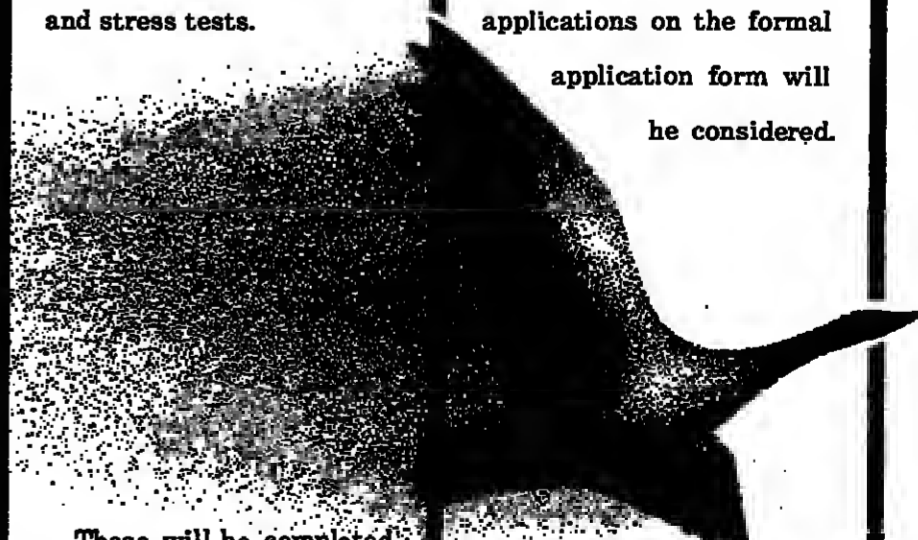
How to APPLY.

There is no coupon to clip and send.

The Mission has employed MSL International (UK) Limited as recruitment consultants. They are at 32 Aybrook Street, London W1M 3JL. To obtain an application form please phone 01-224 2211 (16 lines) between 9am and 7pm on weekdays and 10am and 5pm at weekends. The line will remain open until Friday 14th July 1989.

The application closing date is Friday 24th July. Only applications on the formal application form will be considered.

**JUNO
AKIHO**
THE FIRST ANGLO-SOVIET SPACE MISSION



AMERICAN NEWS

Rostenkowski rules out capital gains tax cut

By Peter Riddell, US Editor, in Washington

A REDUCTION in the US capital gains tax in the coming year has been ruled out by Mr Dan Rostenkowski, the Democratic chairman of the tax-writing House ways and means committee.

The Bush administration has pressed for a cut, partly because the initial boost to tax receipts would account for most of the \$5.3bn (\$3.4bn) extra revenue needed to meet the budget deficit reduction target for the 1990 fiscal year. This has been strongly opposed by most leading Democrats for mainly favouring the already well-off.

But, following discussions with President George Bush, an old friend, Mr Rostenkowski decided to float a number of possibilities yesterday by holding a one-year reduction in the tax. But he said yesterday that resistance from the Democratic majority on his committee to any cut was more vigorous than he had expected, and capital gains had been dropped from his agenda.

Baker rejects China sanctions

By Peter Riddell

MR James Baker, the US Secretary of State, firmly rejected a package of further sanctions against China approved in the House of Representatives yesterday by a 418-0 vote.

Speaking at a White House news conference, Mr Baker strongly defended the administration's cautious approach to the Chinese crackdown in face of increasing criticism from Congress that President George Bush should speak out more.

Mr Baker said human rights, while an important principle in US foreign policy, were not and could not be the only principle involved. He argued that the right response was a measured one which "clearly expresses our outrage, but does not resort to an overly emotional response which involves inflammatory rhetoric".

Appealing to Congress on the basis of Mr Bush's special experience as US envoy in Peking in 1974-75, Mr Baker said that while the administration recognised "the desire of



Dan Rostenkowski: possible compromises

consisting of what is known in Washington as "loophole-closers, cats and dogs" - that is, minor changes which are not seen as violating Mr Bush's "no new taxes" campaign pledge.

These include ending tax relief to commercial banks on some of their lending to Third World countries, ending a loop-

hole in the tax law encouraging the use of employee stock ownership plans in corporate takeovers, reducing the attractions of junk bond issues by ending tax benefits for securities that postpone cash interest payments until the bonds mature, putting off an existing provision for automatically reducing airport and airway taxes, and extending a 3 per cent tax on long-distance phone calls.

All these proposals are concerned with meeting fiscal 1990 budget targets. But, quite separately, informal discussions are under way between the administration and the Senate and House budget committees on the much larger deficit reduction package needed to meet the fiscal 1991 target.

At present, this is only at the stage of possible options but these apparently include a big tax increase as well as cuts in spending programmes. This Bush's campaign pledge and the possibility is being viewed with alarm by conservative Republicans.

Record investment boosts US foreign debt to \$533bn

By Lionel Barber in Washington

RECORD inflows of direct foreign investment in the US - and America's dependency on foreign finance to service its budget deficit - have prompted calls for curbs on foreign investment, but the Bush administration argues that the investment flows have helped provide the capital for rejuvenating ageing US industries.

Both the UK and Japan showed large increases in their direct investment position, with the British total jumping from \$78.67bn in 1987 to \$101.91bn last year. The Japanese, buying manufacturing, real estate and wholesale trade, increased their investment from \$35.15bn to \$53.35bn over the same period.

The Commerce Department said the new foreign debt total was \$154.3bn higher than the \$378.3bn owed in 1987 by the US.

The US debt figure cannot be compared with the commercial and government debt of other countries such as Mexico and Brazil, since it reflects the mismatch between US-owned assets abroad and foreign assets held in the US.

The US was classed as a debtor nation in 1988, the first

time since 1914. The flows of foreign investment into the US - and America's dependency on foreign finance to service its budget deficit - have prompted calls for curbs on foreign investment, but the Bush administration argues that the investment flows have helped provide the capital for rejuvenating ageing US industries.

US direct investment abroad grew 6.1 per cent in 1988. Americans invested \$152.25bn in Europe (\$146.24bn). In Canada, the figure rose to \$61.24bn (\$58.35bn), while US investment in Japan increased marginally to \$16.97bn (\$14.67bn).

The Commerce Department said the big increase in foreign direct investment in the US reflected the large number and size of foreign acquisitions of US companies in 1988, as well as the improved performance of US affiliates of foreign parents. It also showed heavy foreign purchases of US bonds, and placement of dollars in the US by foreign monetary authorities - a sign of confidence in the US economy.

Defence budget vote defeat for Cheney

By Lionel Barber

THE US House of Representatives armed services committee has given a reprieve to the V-22 Osprey tilt-rotor aircraft for the Marine Corps and the Navy's F-14 jet fighter. The Pentagon threatened to axe both in next year's defence budget.

The vote is a boost for the Long Island-based Grumman Corporation, which has lobbied fiercely to protect production of the F-14, but it is not final. The bill must still go to the floor of the House, where further amendments may be offered before a final reconciliation of the House and Senate bills in conference.

This year's defence budget deliberations reveal that lawmakers are still "micro-managing" the Pentagon's proposals, cutting some projects and adding others. The House job to their home states. But the degree of interference has

declined - a reflection of tighter budget constraints.

On Wednesday, Mr Les Aspin, committee chairman, proposed leaving intact the Pentagon's proposal to spend \$79.8bn (\$71bn) on weapons systems in fiscal 1990, which starts on October 1 this year. The vote was tied at 26-26, which under House rules defeated Mr Aspin's motion.

The other emerging feature is growing opposition to the B-2 Stealth bomber manufactured by Northrop. Current estimates show that the radar-evading bombers may cost more than \$600m each. Mr Richard Cheney, Defence Secretary, is sticking to the project, but lawmakers want to see a successful test flight soon. If the US Air Force buys its planned 132 B-2 bombers, it would cost \$70bn - almost a quarter of this year's total defence budget.

Brazilian wages measures likely to encourage inflation

By John Barham in São Paulo

BRAZIL lurched further towards hyperinflation with the approval on Wednesday of a series of government and congressional measures that increase the federal deficit and shore up wages. The decisions may mean that Brazil once again falls behind with debt service payments in the third quarter.

The new wages, monetary and fiscal legislation were rushed through Congress on the eve of its winter break, overturning a presidential veto. The lowest paid will now receive a 3 per cent real monthly increase, to be paid every two months. Congress also set the minimum wage at the equivalent of \$75 a month.

The Sarney government had earlier vetoed these bills as inflationary and on the grounds they would increase the sector deficit since federal social security benefits are tied to the minimum wage. The Finance Ministry believes the added social security cost will

add as much as two percentage points to the deficit which could reach 8 per cent of GDP this year.

The inflation rate has already made a mockery of the 1989 budget, designed to withstand only single-digit inflation. Congress approved a \$963m appropriation to pay civil servants' wages in the third quarter.

The government has also received approval to expand the money supply by 60 per cent during the July/September period, injecting \$10.68bn more, at current exchange rates, into the economy.

Congress also repealed a ban on net bond sales, allowing Brasília to sell \$4.6bn worth of bonds to the public in the three months to September. The government promises it will not make use of the authorisation. The debt market, which already finances the government on a 24-hour basis only, is increasingly fearful of the quality of the federal paper.

The country is resigned to June inflation of 25 per cent bringing the rate since January to 130 per cent. This inflationary trend means Brazil almost certainly cannot meet the targets agreed with the International Monetary Fund. Without IMF blessing, private and multinational lenders will not release fresh loans of \$4bn (\$2.6bn) due this year. Brazil must make principal and interest payments of \$2bn in September.

The Finance Minister, Mr Malisson da Nobrega, has made repeated warnings this week that Brazil will do all in its power to protect its official reserves.

Ms Rosa Dalcin, a ministry official, said: "An exchange crisis, when reserves were depleted, was one of the paths to hyperinflation in other countries. If we have to, we will delay payments - that is the spirit of his statement." In March, Brazil's reserves stood at \$3.3bn.

Bush names Sikes to head FCC

By Roderick Oram in New York

PRESIDENT George Bush has nominated Mr Alfred Sikes, a supporter of wide-ranging deregulation of telecommunications, to head the Federal Communications Commission, the industry's regulatory agency.

As head for the past three years of the National Telecommunications and Information Administration, a unit of the Commerce Department, he was involved with reviewing policy. As head of the FCC he will be a leading policy-maker.

He has advocated changing laws, to allow, for example, telephone companies to provide some cable television services and television networks to own cable systems, and the abolition of exclusive cable franchises. He is expected to moderate his views at the FCC.

Well connected on Capitol Hill, Mr Sikes is likely to win swift confirmation and to build a more productive relationship with Congress than his predecessor, Mr Dennis Patrick.

Cuba sacks minister after drug scandal

CUBA'S powerful interior minister, General José Abrantes, has been dismissed, the first high-level government casualty in the country's biggest drug trafficking scandal, it was announced yesterday, Sender reports from Havana.

The official newspaper Granma said in a front-page announcement signed by President Fidel Castro that the Communist Party politburo decided to name General Abelardo Colome Ibarra as Interior Minister, a job diplomats say ranks third in Cuba's power structure.

General Abrantes, a well-known figure and long-time associate of Gen Castro and his younger brother Raúl, had held the job since December 1985.

His replacement is an experienced army general and politi-

cian member, who holds the honorary title of Hero of the Revolution and was one of three vice-ministers of the Revolutionary Armed Forces. That made him one of Defence Minister Raúl Castro's deputies.

In the drug and corruption scandal which broke on June 14, General Arnaldo Ochoa Sanchez has been accused of being the ringleader of military and interior ministry officials who collaborated with Colombia's Medellín drug cartel.

They allegedly helped to smuggle six tonnes of cocaine into the US between 1987 and this year through military airbases in Cuba, and accepted \$3.4m in bribes.

A military court of honour on Monday recommended that Gen Ochoa be court-martialed for high treason. All 47 members said he was a traitor and deserved death by firing squad. The decision to remove Gen Abrantes, a man in his early 50s, was taken irrespective of "the services he rendered to the revolution and the trust he had and has from the direction of our party", it added.

WORLD TRADE NEWS

Japan asks Gatt for rules of origin guidelines

By William Dullforce in Geneva

JAPAN has asked the General Agreement on Tariffs and Trade to establish guidelines for determining the rules of origin of traded goods.

Japanese officials say their move is directly related to the problems their car, semiconductor and other electronic manufacturers are having with the European Community. The Japanese are especially concerned about the growing powers of the European Commission under a procedure which turns its ruling on origins into law, unless it is opposed by a majority of EC governments within three months.

In the absence of agreed international rules, this procedure can lead to arbitrary decisions bound to restrict investment as well as trade, the Japanese argue. One recent instance was the Commission's adoption of a new rule of origin for photo-copiers, which allowed it to extend anti-dumping duties to Japanese products assembled in the US on

the grounds that the assembly of basic parts did not confer US origin.

Earlier instances have concerned Nissan cars built in the UK and video-cassette recorders assembled within the EC at Japanese-owned plants, where the "local content" level has become the basis for contention.

Last month, as part of the drive by Mr Martin Bangemann, EC Industry Commissioner, to open the EC car market, the Commission decided not to create EC local content rules for Japanese cars, but the Japanese fear that French, Italian and Spanish car-makers will succeed in having this decision reversed.

Now Japan has put the issue

on the agenda of Gatt's trade-liberalising Uruguay Round. This week, it formally asked the negotiating group handling non-tariff barriers to trade to work out a multilateral framework governing rules of origin.

The EC wants disputes over the rules to be settled in the Brussels-based Customs Co-operation Council. The Japanese want a new international framework embodying the following elements:

- Rules of origin should be clear and simple.
- The principle of non-discriminatory treatment should be applied.
- Procedures by which a government decides on rules should be transparent.
- The rules should not impair or nullify countries' existing rights unless it was necessary.
- They should not be used as a means to distort trade and investment.

Japanese officials say they will submit a more detailed proposal after the summer

Hyundai set to fight EC duties

By William Dawkins in Brussels

HYUNDAI Merchant Marine, the South Korean shipping line, has announced its intention to fight European Commission anti-dumping duties on its freight rates between the EC and Australia.

The company has lodged an appeal at the European Court of Justice against the duties, equivalent to 37.4 per cent of shipping costs, imposed last January. These are the first anti-dumping duties ever levied by Brussels on a service industry and have forced Hyundai to quit the EC-Australia route.

This has provoked complaints from European shippers, the freight company customers of shipping lines. European shipping lines had argued that Hyundai was unfairly undercutting their rates.

However, Hyundai claims that they failed to prove it had any non-commercial advantages, that its ships did not ply exactly the same route as the European lines and that the Commission's investigation was biased.

European maize producers lobby against US gluten import rise

By Tim Dickson in Brussels

EUROPEAN maize producers, led by the French, are creating a fresh lobby to persuade the European Commission to act against the rising level of corn gluten imports from the US.

New efforts are being made to convince Brussels that there is a prima facie case for an official anti-dumping investigation arising from long standing subsidies paid to US maize farmers and ethanol producers under the US Feed Grains programmes and like schemes. Failing this, moves are being made to mobilise the support of the southern EC member states particularly for concessions in the current multilateral trade negotiations.

The sense of grievance on the part of the European Confederation of Maize Producers has been exacerbated by the outcome of the Mid-Term Review of the Uruguay Round in Geneva in April. The resulting freeze on new farm subsidies and the vague long-term commitment to reduce them have left the EC's maize producers gloomy about short-term prospects for easing what they see as the unfair pressures exerted on them by the US regime.

The political and technical problems they face are considerable. In the negotiating lull which has set in since Geneva, Brussels is not anxious to ruffle feathers in Washington with a new complaint at this stage, while experts in the external relations department of the Commission are dubious about the legal merits of the complaint (though they have yet officially to respond to it).

Washington, meanwhile, is egged on by the vociferous farm lobby, is strongly opposed to concessions on this issue, given that one of the US's only duty-free openings to the European Community's agricultural markets is at stake.

Maize gluten (corn gluten as the Americans call it) is the highly nutritious residue left after starch liquid gluten and seed have been removed from maize kernels in the processes used to produce starch and ethanol. It is free of EC import duty and has become an increasingly important substitute for cereals in compound animal feeds produced in the EC - imports have jumped from 1.7m tonnes in 1978-79 to 4.5m tonnes in 1988-89.

According to the EC complainants, US production and trade in maize gluten have been spurred by subsidies given to maize producers, and capital loans and grants given to holders of plants which turn maize into ethanol in a process which leaves maize gluten as a residue.

US officials dismiss the EC arguments and stress that the subsidies are not direct but "downstream" - perceived to be the key weakness in any anti-dumping action. "You have to show much more immediate subsidies to prove the case," one expert explained.

More hope is attached to the possibility that the current GATT negotiations may lead to some sort of "rebalancing" - reduced export subsidies for EC cereals in return for some new EC import protection for soyabean and cereal substitutes like corn gluten feed. Attempts by the EC to negotiate import limits and duties have failed in the past, but Brussels is well aware that the rising market share of corn gluten increases cereals substitution, and involves extra costs in subsidising EC exports of maize and cereals.

Danes near clash over bridge deal

By William Dawkins

DENMARK and the European Commission are heading for a row over allegations of illicit unfairness in the award of a Dkr3bn (£250m) contract for a giant road and rail bridge.

Brussels will decide within the next week or so whether to seek a European Court of Justice injunction to prevent the start of work on the 6.6km bridge, which will stretch from Sjælland to the island peninsula. This could force the Danish Government to scrap the contract and call for tenders again.

The Commission was asked to take action by Bouygues, the French construction company, leading a consortium with Trafalgar House of the UK, which lost the contract to a six-company grouping. It claims that the contract contravenes EC rules on free movement of goods, services and workers by obliging the use of largely Danish labour, equipment and materials.

This is the first time a big construction company has tried to use EC law to challenge the award of such a substantial international contract.

US computer makers form 'coalition'

By Louise Kehoe in San Francisco

A GROUP of major US computer manufacturers has formed an industry coalition to develop public policy recommendations on the issues of trade and competitiveness. The group, led by International Business Machines, is expected to wield considerable influence in Washington.

Members of the Computer Systems Policy Project, as the group is called, include Apple Computer, Compaq Computer, Cray Research, Hewlett-Packard, IBM, NCR, Sun Microsystems, Tandem and Unisys.

The industry group could have an important influence in issues relating to US-Japanese high technology trade. The group will also explore ways in which individual company commitments or collective company actions could help to create a long-term strategy for the competitiveness of US computer systems makers.

Seoul close to dropping right to curb imports

By William Dullforce

SOUTH KOREA is teetering on the verge of abandoning its right as a developing country, under the General Agreement on Tariffs and Trade, to impose import restrictions for balance-of-payment reasons.

This would be another important step in Seoul's current liberalisation of its economy and trade, which has been strongly encouraged by the US and other big trading countries.

But the Koreans are asking a steep price for renouncing their rights. In three days of consultations here with other Gatt governments, they have been holding out for a grace period, of up to 10 years, during which they would phase out restrictions and also be guaranteed exemption from any new trade challenges under Gatt provisions, as well as from any unilateral trade action.

Such a concession would effectively protect Korea, for instance, against action by the US under the controversial

Section 301 of its new Trade Act.

So far, the US, the European Community and other countries have refused a grace period unless it was shorter than 10 years and linked with a precise timetable for the phasing-out.

Gatt contains an escape clause which provides legal cover for a country's export balance-of-payment difficulties to impose restrictions, such as import quotas and licences, which would not normally be allowed. In return, the country's trade policy is subjected every two or three years to examination by Gatt and the International Monetary Fund.

Mr Sang Ock Lee, head of the Korean delegation to Gatt, indicated at the start of the latest scrutiny, that his country, which has accumulated current account surpluses since 1986, would be willing to unwind its remaining import restrictions.

Pragmatism binds Malawi to its big neighbour

Mike Hall assesses South African influence on the commerce of Dr Banda's republic

A GLANCE along the shelves of any PTC supermarket, the main shopping chain in Malawi, reveals that it is not a country ashamed of its commercial links with white-ruled South Africa. From wine to skin-lightening cream, a substantial array of the republic's products greets the shopper.

This is no surprise - not only is Malawi the only country in Africa to host a fully-fledged South African embassy, but the South African food giant, Sona, is a minority shareholding in the People's Trading Centre which owns Kwikwava.

Despite its active membership of the Southern Africa Development Co-ordination Conference (SADCC), which aims to reduce member states' dependence on South Africa, Malawi's links with this regional power are strong. This month there was a huge

South African stand at Malawi's second international trade fair, a four-day visit from Dr D.W. Steyn, Trade Minister, and a week-long visit, the first of its kind to any African country, by a group of 94 black South African business people looking to enhance links.

Soon after independence in 1964, the president, Dr H. Kamuzu Banda, who worked in the mines himself as a boy in the 1920s, broke with the fledgling Organisation of African Unity by advocating a policy of "contact and dialogue" with Pretoria.

In 1967, a trade agreement, intended to provide greater market access for Malawian exports, was signed with South Africa.

Relations between the two countries remain close, although Malawi's membership of SADCC illustrates the government's view that links with its neighbours are at least as

important as ties with Pretoria. South Africa is Malawi's largest source of imports, accounting for 35 per cent of the total in 1987, according to Malawi government figures. Businessmen say it could now be as high as 50 per cent in that imports have been further liberalised with structural adjustment.

"After the crisis in 1987, no one had spare parts and most firms' stocks were gone," says a local business adviser. "With liberalisation, speed of delivery was critical - only South Africa could provide that." Fuel, fertiliser, chemicals and machinery make up the bulk of South African imports, which in 1987 totalled Kwacha 26m (\$102m). Exports from Malawi are mainly tea, tobacco and other primary commodities, and amounted to only Kwacha 65m (\$26m), revealing a huge trade imbalance.

Wheat flour is an increasing Malawian import. South Africa's subsidies to its milling industry mean that it is cheaper for Malawian business to import than to grow and mill wheat at home. Plans to encourage wheat in Malawi have been shelved as a result.

The trade imbalance is believed to be the reason why Malawi has been re-negotiating its trade agreements with South Africa. Negotiations started almost three years ago, according to Malawian officials. South African sources say they are close to signing.

Malawi is almost totally dependent on South African transport routes. Over 80 per cent of trade goes via road and rail to and from the port of Durban, more than 3,500 kms away.

Malawi also receives South African aid. In 1987, when arrears on import payments built up, South Africa quietly

helped out with a Rand 50m (\$17.6m) revolving credit facility, which was increased to Rand 80m in early last year, according to South African sources. The conditions, if any, are not clear.

The amount and terms of Malawi's debt to South Africa are also not clear, although when President P.W. Botha visited Malawi in September last, he announced that repayments had been rescheduled.

In 1987 South Africa's export credit guarantee organisation extended its payment period from three to nine months - a facility almost certainly underwritten by Pretoria.

Links with Pretoria remain a potential source of controversy, but Malawian government officials and traders take a pragmatic view. "It makes economic sense," says a local businessman. "South Africa is close - it's quicker, cheaper, and usually more efficient."

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UK NEWS

Railway union votes to escalate industrial action Thatcher rules out early rail sell-off to halt strike

By Fiona Thompson and Philip Rawston

MRS Margaret Thatcher, the Prime Minister, yesterday ruled out the countering of strikes by the National Union of Railwaymen with early privatisation of British Rail, as the union's annual conference voted to escalate its industrial action.

Although she condemned the strikes as "utterly deplorable," the Prime Minister said the Government was not yet ready to bring forward proposals for the privatisation of BR, which would require careful preparation.

Her remarks in the House of Commons came as the NUR's conference in Newcastle-upon-Tyne unanimously backed a call from Mr Jimmy Knapp, general secretary, for a further 24-hour national rail and London Underground strike on July 12.

It also authorised Mr Knapp to call strikes on successive Wednesdays, or any other days the union's executive chose. The union announced last week that it would be striking

next Wednesday, July 5.

Mr Knapp urged delegates to give the executive the authority to resist BR's 7 per cent pay award and its proposed abolition of national collective bargaining and also to resist pay and changes in working practices at London Underground.

BR said last night it was disappointed that the NUR was continuing to threaten industrial action, and said the only way forward was through arbitration at next Wednesday's meeting at the Railway Statute National Tribunal.

But the NUR conference voted to send only an observer to the meeting. Mr Knapp said the tribunal had no power to arbitrate on the issue of the future of pay bargaining in the industry and so could not solve the whole dispute.

Mr Knapp said he was seeking urgent talks with all the other unions involved to ensure maximum co-ordination and co-operation. The "Alef train drivers' union had also decided to send only an

observer to the tribunal.

The Prime Minister's comments followed a one-hour Cabinet meeting yesterday at which Mr Paul Channon, Transport Secretary, and Mr Norman Fowler, Employment Secretary, reported on the strike.

Mr Fowler had roused speculation about the early privatisation of BR on Wednesday when he described the rail unions' action as "industrial blackmail" and said people would draw the conclusion that there was no case for a monopoly.

But Mr Channon has only just received the report of consultants on the BR privatisation options. He hopes to be able to announce his decision at the Conservative Party's annual conference, to be held this year at Blackpool in the autumn; but the preparation of detailed plans, and legislation to enact them, is unlikely to be completed before the next General Election.

Plumber Phillips' watertight guide to economics

By Ralph Atkins, Economics Staff

CASCADES of red water and the whirr of an electric pump yesterday marked the restoration of a monument to 1950s economic thinking - and creative plumbing.

The London School of Economics unveiled a freshly scrubbed, reconstructed "Phillips Machine" - a bizarre collection of pipes, weights, pulleys, wires and valves intended to model the economy. In its heyday the 7B-by-5ft machine was used as teaching tool and to represent Keynesian economics.

It was the brainchild of the late Professor Bill Phillips, an electrical engineer and crocodile hunter from New Zealand who turned economist and then plumber. The first version was built in a Croydon garage in the summer of 1949.

In the jargon, it was "a hydraulic representation of an open economy model with an explicit underlying dynamic structure." To a generation of students it was a noisy machine in the middle of a room that threatened to disrupt lectures by leaking over the floor.

Phillips Machines were used as a teaching device by Professor James Meade, the Nobel prize-winning economist. He would appoint students to be Governor of the Bank of England and Chancellor of the Exchequer to demonstrate principles of monetary and fiscal policy.

Two machines were constructed as mirror images and linked with pipes,

representing the economies of the UK and US. With two more students acting as US Treasury Secretary and Chairman of the Federal Reserve, it would show how the destabilising policy of one country could be transmitted to another.

Yesterday Prof Meade described Prof Phillips, who died in 1976, as a "very, very remarkable man." He had invented a machine that was "an extraordinarily useful and ingenious teaching system."

The project of restoring the machine, which now stands in a glass case under bright lights, took two years. It was funded by the Suntory-Toyota International Centre for Economics and Related Disciplines at the LSE.

The role of the Phillips Machine has largely been overtaken by computers. Instead of specifying only nine variables, such as the tax rate or the level of government spending, economists now use models incorporating 500 or more equations.

The Phillips Machine also incorporates what today would be regarded as fundamental flaws. It fails to take proper account of inflation, and there is no link between interest rates and the exchange rate.

With its collection of valves representing financial institutions, however, it is not completely outdated. True Thatcherite economics can be illustrated easily - by winding the Bank of England up and down.

Abbey group drop protest over costs

By David Barclay

MEMBERS of Abbey National Building Society who oppose the society's stock market flotation said yesterday they were being forced to drop an application for a judicial review to overturn the authorisation to go ahead with the conversion to a public company.

However, Abbey Members Against Flotation said a leading counsel had said permission would almost certainly have been granted for the review and that it would have had a good chance of success.

Mr Alec Leaver, Amaf's chairman, said: "We have been advised that the Building Societies Commission misdirected itself on a specific point of law when confirming the Abbey National vote for conversion to PLC."

Bank ends use of M3 monetary measure

By Simon Holberton, Economics Staff

M3, the broad measure of money supply that was so influential in government economic policy-making from the late 1970s until the mid 1980s, will no longer be compiled, the Bank of England said yesterday.

The Bank said Abbey National Building Society's conversion into a bank meant that certain monetary aggregates, including M3, would become too distorted to be useful in discerning monetary trends in the economy.

M4, which includes bank and building society assets, and M0, the narrow measure of the money supply, which includes mostly notes and coins in circulation, are largely unaffected by Abbey National's change in

status and will continue to be calculated and published.

M3, which includes bank deposits, was first openly targeted in 1976 when Mr Denis Healey was the Labour government's Chancellor of the Exchequer.

Monetary targeting was carried on by Mrs Margaret Thatcher's Government but became to be relied upon less as the 1980s progressed. Mr Nigel Lawson, the Chancellor, suspended targets for M3 in 1986 and finally abandoned them in his 1987 Budget.

Government disenchantment with M3 grew as the measure was felt to be an unreliable indicator of monetary conditions because of financial deregulation. It further down-

graded M3 last year when it decided to define government debt sales in terms of M4.

Mr John Shepperd, economist at Warburg Securities, said: "M3 was what we all used to be interested in and now the Bank has abolished it in a technical note. It's the final burial of 1980s monetarism."

Monetary statistics for June, which will be published next month, will mark the last time the Bank publishes data on M1, M2 and M3, which includes banks' time deposits. Those indicators measured liquidity in the banking system.

The Bank said in a statement that there was no statistical technique that could deal with the discontinuity caused by the monetary aggregates by

the redefinition of Abbey National as a bank.

The inclusions of Abbey National's deposits will inflate total bank deposits by 11 per cent, the Bank estimates. Its assets, at 532bn, represent nearly 10 per cent of all banks' sterling assets.

Mr Tim Congdon, economics adviser to Gerard and National, the discount house, said that, although he shed no tears on hearing of the demise of M3, he thought the Bank's action was a "sweeping response to a problem that has been around in the past." He noted that when TSB's deposits were included in the banking statistics for the first time in 1981, total sterling deposits rose by 10 per cent.

Kinnock warns transport union on vote for unilateral policy

By Charles Leadbeater, Labour Editor

MR NEIL KINNOCK told the Transport and General Workers' Union yesterday that the Labour Party could not be elected without a policy of unilateral nuclear disarmament.

In his first major public speech on the issue since the publication of the party's policy review resulted in a rejection of unilateral nuclear disarmament in favour of multilateral disarmament, Mr Kinnock warned the union against adopting a position of isolated, powerless parity.

The speech, met by a standing ovation from only half the delegates and subject to heckling, was a relentless, uncompromising restatement of the party's policy, designed to assert his independence from the union.

Mr Kinnock told delegates to

the union's biennial delegate conference in Brighton. "You need to move the change in the world by making no change."

Describing unilateralism as "yesterday's policy," he said multilateralism was so vital to the party's election chances that it would not be elected without it. "That is not new realism, just realism," he said.

The union's call for a timetable for disarmament within the lifetime of a government had no credibility, Mr Kinnock said.

He conspicuously avoided reference to the impassioned speech on Tuesday by Mr Ron Todd, the TGWU's general secretary, which is widely judged to have swung the vote narrowly in favour of unilateralism.

However, he warned that the

union was in danger of seeing its influence within the Labour movement diminish as it became increasingly isolated from the growing body of unions and constituency parties supporting the policy review.

These votes mean that this October's Labour Party conference is almost certain to approve the revised policy.

The speech boosted the confidence of union multilateralists. They argued the conference would not have supported unilateralism had Mr Kinnock spoken before the debate.

They will press for a softer line from the union's delegation to the Labour Party conference, on the basis of a subsidiary motion passed on Tuesday which calls for multilateral negotiations alongside unilateral measures.

Amaf would have gone ahead with the application for judicial review had it been given an agreement by the Building Societies Commission that it would not seek an order for costs against the person making the application. The commission is the industry's watchdog. It gave Abbey National its authorisation earlier this month, after a two-day hearing in May.

Amaf said it was disappointed with the commissioner's decision. It contrasted the move with a friendly High Court action between the commission and Abbey National in January to resolve legal obstacles to the conversion process. Share Issue Page 21

Water authorities call for delay on compliance date

THE 10 water authorities are asking MPs to overturn a key House of Lords amendment to the water privatisation bill when the legislation returns to the House of Commons next week, writes Andrew Hill.

In a letter to MPs, the Water Authorities Association hit back at critics of water quality in Britain, and said a 1993 deadline for compliance with EC water purity standards was impractical.

Opposition peers altered the legislation to bring forward the deadline, but the Government is expected to seek to reverse

the amendment.

The water industry believes it would be difficult and expensive to carry out the necessary work on pipes and water treatment plants within four years of privatisation.

Mr Miles Carney, secretary of the WAA, said "We think that to fasten on a single date is unnecessary. Most water supplies in England and Wales already meet most of the requirements of the EC directive and programmes of improving those that don't are going ahead at the fastest practicable rate."

Lawyers voice concern on reform 'backtracking'

THE LAW SOCIETY, the solicitors' governing body, said yesterday it was concerned by press reports that the Government was backtracking on its proposals to end the barristers' monopoly on rights of audience in the higher courts because of strong pressure from the Bar and the judges, writes Robert Rice.

Sir Richard Gaskell, the society's president, said the suggestion that judges should have a veto over progress of solicitors to wider rights of audience was alarming.

"Given the open hostility of

their response to solicitors acting for their clients in the higher courts, there seems little doubt that they would use their veto to kill reforms stone dead," he said.

More than 80 per cent of people wanted the opportunity to ask their solicitor to take their case in court. They understood that the barristers' monopoly made sense only to barristers.

The suggestion that the solicitor who had prepared a case for a client would be banned from appearing in court on their behalf was equally ridiculous, Sir Richard said.

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UK NEWS

Leyland DAF wins £155m army contract

By David White and John Griffiths

THE BRITISH Army's traditional Bedford lorry is to lose its preserve to a new Leyland DAF vehicle under a £155m contract announced yesterday.

The deal, to supply the forces' needs for four-tonne, four-wheel-drive trucks over five years starting next year, is expected to lead to further purchases, possibly totalling up to £500m.

The decision by the Ministry of Defence (MoD) follows months of extensive trials pitting AWD - the former Bedford subsidiary of General Motors of the US - against Leyland DAF and Volvo GB for the supply of 5,350 four-tonne trucks to the armed forces.

AWD, whose supplies of eight and 14-tonne trucks to the Army could also be exposed to heightened competition from Leyland DAF in the future, last night said it was "disappointed" at the outcome.

But it denied that the viability of its Dunstable plant in southern England, which employs more than 1,200, was threatened and said it would put its own contender, the ML 4x4, into production next year irrespective.

"It will be aggressively marketed to AWD's extensive range of customers overseas," a spokesman said last night. Leyland DAF, created out of a merger between the former UK state-owned Leyland Vehicle and the Dutch truck-maker DAF in 1987, had set the stage for yesterday's announcement by winning a £150m MoD order for battlefield trucks earlier this year.

Mr Tim Sainsbury, Undersecretary of State for Defence Procurement, told the House of Commons in answer to a parliamentary question that the Leyland DAF truck promised to provide the best value for money, taking whole-life costs into account. Mr Sainsbury described the competition as "hard fought between three very good companies, any of whose vehicles would have met the services' requirements."

The decision is believed to have been swung by a service and spares package put forward by Leyland DAF through dealerships in West Germany, to provide back-up for the British Army of the Rhine.

The Leyland DAF 4x4 truck was developed by Leyland Vehicles specifically for the military requirement before the DAF merger. All three Leyland trucks were required to produce eight vehicles for evaluation.

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Listeria warning 'took two years to come to light'

By Christopher Perkes, Consumer Industries Editor

THE DEPARTMENT of Health waited two years before alerting pregnant women to the dangers of listeria infections in food, an all-party House of Commons committee charged yesterday.

The ministry was also accused of issuing food safety and hygiene information "in dribs and drabs."

The situation might be improved if food issues were kept under constant review by an inter-ministerial committee, government-sponsored research was stepped up and officials responsible for enforcing food law were given greater powers and proper funding, the Commons social services committee said.

In a report on listeria, a common but little understood bacterium found widely in the environment, the Commons social services committee said it was unacceptable that so little had been learned about its effects on humans in view of its capacity to cause serious and often fatal disease in farm animals.

The number of confirmed cases of listeriosis in humans more than tripled between 1978 and 1988. Although the disease was still relatively uncommon, it was fatal in more than 30 per cent of known cases.

The apparently high mortality rate might be due to under-diagnosis of mild cases, the report said. Of 281 cases recorded last year, 115 affected pregnant women, 26 of whom lost their babies.

Problems with listeria in ready-cooked poultry and some soft cheeses were identified in 1987 yet no action was taken. It was not until February this year that Sir Donald Acheson, the chief medical officer, issued specific warnings to pregnant women and people with impaired immune systems to avoid or take special care with these products.

The Health Ministry rejected the charge. "We were the first country and remain the only country in the world to have issued a general warning to pregnant women about the risks of listeriosis from certain foods," it said. Sir Donald's warning was issued as soon as the epidemiological evidence warranted it, the ministry added.

Public concern about listeria followed hard on the heels of the statement by a Edwina Currie, then junior health minister, that "most of British egg production is infected with salmonella."

Also, earlier this month one person died after 26 people were taken to hospital suffering from botulism in an outbreak traced to hazelnut yoghurt.

The committee also gave veiled warnings about the dangers of withdrawing government funds from research establishments, and called for continued investment.

Mr Willetts, a former member of the Prime Minister's Downing Street Policy Unit, has played a leading role in advising the Government on health and welfare policy.

He gave his assurance that the changes were not a prelude to dismantling the NHS at the launch of a pamphlet about the reforms which he has written for the Conservative Political Centre.

Mr Kenneth Clarke, Health Secretary, who accompanied Mr Willetts, said he hoped the pamphlet would "help allay the fears of some people both inside and outside the NHS which have no relation to what is actually proposed in the White Paper [policy document]."

During three years working for Mrs Margaret Thatcher at Downing Street, the Prime Minister's office, and the subsequent 2½ years at the CPS which she helped found, writes Mr Willetts, "she has never once, even in the most private conversation, ever suggested that the real objective must be to dismantle the NHS and get people to pay for their own health care."

It was not the Government's policy to dismantle the NHS and force people to pay directly for their own health care. Critics and sceptics should focus their attention on the policy set out in the White Paper and not on some false, imaginary policy that could not be found in any government document or ministerial statement.

All advanced countries, says Mr Willetts, have publicly financed health care systems. Even the US spent almost as high a proportion of gross domestic product on publicly financed health care as the UK did.

This approach belonged to the traditions of social insurance, under which money was redistributed from the healthy to the sick and between age-groups.

"It is precisely because the NHS does the job efficiently that private payment would not work," he said.

Even if every adult person in full-time employment were paying for his or her own health care, there would not be a significant reduction in the burden on the NHS," said Mr Willetts.

'No secret agenda on health'

By Alan Pike, Social Affairs Correspondent

THE Government's proposed health reforms do not contain a secret agenda for dismantling the National Health Service, Mr David Willetts, director of studies at the Centre for Policy Studies, said yesterday.

Mr Willetts, a former member of the Prime Minister's Downing Street Policy Unit, has played a leading role in advising the Government on health and welfare policy.

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Charity launches AIDS insurance

By Eric Short

LIFESHIELD Foundation, the AIDS charity, is introducing an insurance policy to cover the financial consequences of individuals becoming HIV positive.

Until now the insurance industry has completely eschewed providing any cover against AIDS (Acquired Immune Deficiency Syndrome) and, in certain cases, excludes or restricts policyholders from cover if they become HIV positive.

The first stage that can lead towards the ultimate onset of the virus. Mr Ray Storey, managing director of Lifeshield Risk Management, the marketing arm of the Foundation, said that until now people who became HIV positive usually have to fend for themselves, often against appalling odds.

He pointed out that such people faced lengthy medical treatment which invariably involved them in additional expenses.

On top of that, many people becoming HIV positive found themselves being made redundant by their employers once it became known.

Mr Storey referred to the recent television programmes on the subject which showed such practices to be common despite the exhortations by the Department of Employment over discrimination against HIV positive sufferers.

To meet these needs, Lifeshield Foundation and Layton Blackham, the Lloyd's correspondents, had devised a special insurance policy, which was a combination of personal accident insurance, medical insurance and legal expenses cover. The policy will be underwritten at Lloyd's.

If the policyholder is confirmed to be HIV positive, then the policy will pay cash benefits of up to £75,000, cover legal expenses of up to £15,000 (including an immediate £500 cash payment so the individual can take legal advice) and provide claimants with a five-year treatment support programme (counselling, stress management and other therapies) up to a maximum of a further £10,000.

At present, the plan is only available to groups of employees - either on an occupational group basis such as doctors, nurses, dentists, social workers - or to companies to cover their employees. Normally, the underwriters would require a minimum of 25 people in the plan.

The plan, as yet, is not available as an individual contract. Na medical evidence is required at the outset, but there are four declarations which must be signed.

● The individual is not HIV positive at the start of the contract.

● The individual does not inject drugs other than those prescribed by a doctor.

● The individual does not indulge in non-heterosexual activities.

● The individual will not deliberately infect the HIV virus.

Saatchi, Soviets team up to put Briton in space

By Peter Marsh

THE marketing sparkle of Saatchi & Saatchi, the world's biggest advertising agency, teamed up yesterday with the technological might of Glavcosmos, the Soviet space agency, at the launch of a project to put the first Briton in space.

Saatchi is acting as consultant to Antequera, a British company set up to mastermind the mission, which will use a Soviet spacecraft and be wholly private sector funded. The launch is due for 1991.

Antequera, the main shareholder of which is Moscow Narodny Bank, the Soviet bank based in London, plans to select the mission's astronaut over the next few months.

It will also have the job of raising the £16m needed to finance the voyage.

The space trip will mean that Britain - after several false starts in recent years in the effort to produce the country's first astronaut - will join the ranks of the 21 other countries whose citizens have entered orbit since manned space flights started in 1961.

Mr Mike Parker, a Saatchi manager who will be in charge of his company's role in the project, said he was confident a large part of the cash could be raised from companies interested in sponsoring the mission.

He said a range of companies, including food groups or suppliers of other consumer items, could expect to gain kudos by having their products taken into space or by being associated with the mission. "I think you will see a lot of imaginative being applied to this question over the next few months," he said.

Another way to gain private-sector finance for the mission will be through companies renting space on the flight for scientific experiments in areas such as low-gravity materials processing. A team of technologists at Brunel University in London is to advise on this aspect of the plans.

The project, formally christened Juno, was unveiled yesterday at a formal signing in Moscow of an agreement between Glavcosmos and Antequera.

Mr Alexander Dunner, head of Glavcosmos, said the project was a mark of the special friendship between the Soviet Union and Britain.

Lord Young, Britain's Trade and Industry Secretary, who was present at the signing ceremony, said he was particularly pleased the project was going ahead without any UK government finance.

Lord Young and other ministerial colleagues have been anxious for the past two years to draw more private sector finance into space projects.

Over the next few months Antequera will be sifting through applications for a team of two UK astronauts, both of whom will undergo training although only one will enter orbit.

Prospective space travellers should be athletic, aged between 21 and 40 and have a university degree in science, engineering or medicine.

Would-be astronauts can learn more by telephoning (01-224 2211) one of Saatchi's offices, which will also have to be prepared to learn Russian. The salary has not been disclosed but is negotiable.

Move to common account standards

By David Waller

HARMONISATION of the world's financial statements - whereby a balance sheet published in Iceland or Switzerland would be comparable to a British or a Japanese one - inched closer yesterday after the UK's Accounting Standards Committee endorsed a new draft framework on the preparation and presentation of financial statements.

The document, drawn up by the International Accounting Standards Committee, addresses general issues of principle rather than specific problems such as the treatment of goodwill. However, both the ASC and the IASC claimed that the framework was an important milestone on the long road to accounting standardisation.

Mr Michael Renshall, ASC chairman, said that many of the reports recommendations and conclusions on subjects such as the objective of financial statements and the meaning of profits would seem somewhat uncontentious to accountants and businessmen in the UK.

However, he suggested that much of the document would be considered radical and shocking in other accounting regimes, even in highly developed economies in continental Europe. If other national accounting bodies endorsed the framework, he argued, the path towards true harmonisation would be much easier.

Mr Georges Barthes, chairman of the IASC who was in London yesterday, predicted that financial statements would start being genuinely comparable in 1992-93. Earlier this year, the IASC circulated draft proposals for the ironing out of differences in the accounting treatment of pensions, goodwill, currency translation and other contentious areas.

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£25m 'jumbo ferries' planned for Channel

By Kevin Brown, Transport Correspondent

SEA CONTAINERS, the Bermuda-based parent company of Sealink British ferries, yesterday announced details of a £25m plan for two "jumbo ferries" to compete with the Channel Tunnel.

Mr James Sherwood, president of Sea Containers, said the two ships would enter service next year after being refitted in West German shipyards at a cost of more than £25m each.

Mr Sherwood said the ships, to be named Fiesta and Fantasia, would be among the safest in the world. Suggestions that they might not be safe were "absolutely false."

Doubts about the safety of the ships were raised on Wednesday by Stena, a Swedish ferry operator which is part of a consortium trying to take over Sea Containers.

Stena drew attention to the fate of the Zenobia, a sister ship of the two Sea Containers vessels, which sank off Cyprus in 1980.

However, the report of the official Swedish board of inquiry, produced by Sea Containers yesterday, shows that the loss was caused by a combination of human error and faulty loading, rather than a design fault.

Sea Containers bought the ships 18 months ago from Somat, the Bulgarian state operator, for \$50m and has been using them as freight vessels - the role for which they were built in Sweden nine years ago.

The refitting work, to be carried out at the Lloyd Werft and Bremer Vulkan yards, will increase the capacity of the ships from 175 passengers to 1,800, plus 650 cars.

The technical specifications of the ships will also be changed considerably by the addition of 2-metre spousons, subdivided into watertight compartments, on each side.

In effect, these will combine the functions of car bumpers and lifeboats, helping to limit collision damage to the ship and keep it afloat while passengers are evacuated.

Mr Tony Rogan, the naval architect in charge of the refitting, said the refitting work would make the ships safer than required by current UK and international legislation.

Ferry safety rules have been tightened since the P & O ferry, Herald of Free Enterprise, capsized off Zeebrugge, Belgium, three years ago with the loss of nearly 200 lives.

"There is no such thing as an unsinkable ship, and only a fool would attempt to describe a ship as unsinkable, but I think you would have to look a long way before you could find a ship with the standards which (will be) built into this one," Mr Rogan said.

Sea Containers' strategy is to improve its Channel services by offering passengers comfort and quality in the hope that they will shun the tunnel when it opens in 1993.

However, the strategy depends on the willingness of the UK and European Community regulatory authorities to allow Sealink and P & O, its main competitor, to operate a joint service.

Mr Sherwood said no serious problems had arisen in preliminary talks with the Office of Fair Trading and the European Commission. The two companies hope to start operating a joint service next year.

Bid details, Page 28

N Sea oil bids 'show confidence in future'

By Max Wilkinson, Resources Editor

THE LATEST round of applications for North Sea exploration licences showed renewed confidence in the future of the UK sector Mr Peter Morrison, the energy minister, said yesterday.

He was announcing the award of 105 licences in the eleventh offshore round after receiving 414 applications to explore individual blocks, many more than in previous rounds.

The bidding showed a sharp recovery in confidence compared with the last round when only 61 licences were awarded on the basis of 127 blocks on offer. In the latest round 212 blocks were on offer and awards were made for a higher proportion of them.

The Government appears to have done its best to encourage independent oil companies, making about a third of the awards to smaller companies, including some prime acreage.

Mr David Black, analyst for County NatWest WoodMac, the broking firm, said Enterprise Oil, the largest UK independent, and Cairn Energy appeared to have done particularly well, and he said that some of the larger companies which had teamed up with British independents seemed to have been given desirable areas to drill.

Mr Black said the results suggested the Government had rewarded oil companies which had shown an aggressive attitude to drilling existing concessions. "Altogether, this seems to have been a fairly balanced round with something in it for everyone," he said.

Mr Morrison said he had told companies which had been sitting on "fallow" blocks from earlier rounds that he expected them to start a drilling programme as soon as possible. The conditions attached to the most recent licences have been tightened to reduce the total period of tenure in the absence of drilling from 26 to 18 years.

The minister said: "The round has been a great success. Virtually all the significant companies involved on the UK continental shelf have made applications."

The drilling programmes offered by applicants were particularly robust, he said. On average applicants offered to drill 3.38 wells per block, a higher figure than in any previous round.

He added: "The industry has responded magnificently and its commitment will ensure that the UK continental shelf continues to be a major international oil province well into the 21st century."

Most of the awards were in the central and southern North Sea.

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MANAGEMENT

Christopher Lorenz concludes his series on Electrolux, the Swedish appliances giant, by assessing the extent to which it has become a fully-fledged multinational

Desperately seeking the truly international manager

Electrolux "is not a multinational, but an international company run by Swedes," says Jim Ringler, the Stockholm-based group's second most senior executive in the US. That is a severe judgment on a company which has managed to reduce its reliance on its home country to only 17 per cent of its SEK 7.6bn (\$7.1bn) revenues and 20 per cent of its 147,000 employees, and which prides itself on putting local management in charge of its considerable manufacturing and sales operations in 50 countries around the world.

In some ways Ringler's comment is unfair, since in product development and several other activities Electrolux is starting to develop the flexible combination of centralisation and decentralisation which business academics see as the hallmark of a fully-fledged "transnational".

But in other ways the description is largely accurate — as it would be, with the appropriate national label, for many other European and American companies which have undergone international expansion in the past few years, and have not yet resolved the dilemma of how to bring managers of other

nationalities into key international roles all over the organisation.

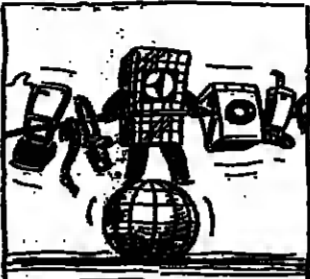
Jim Ringler may say he is "quite comfortable" with the nationality situation, but others within Electrolux — including the company's top management in Stockholm — see it as a potential threat to the group's global ambitions.

Like most other managers in the many companies which Electrolux has bought in the past decade, Ringler admires the open style of the top team from Stockholm, and the extent which they and their staff bring to bear on the "coaching" of their new subsidiaries.

John Gehling, a veteran at Waite, the company's largest US acquisition so far, describes his three years under the Electrolux regime as "the most stimulating since I started working 47 years ago."

Jim Ringler claims that "no American has the ambition to get into Electrolux group management, nor to speak Swedish" — a reference to the fact that, though the company's official language is English, many of the most important discussions take place informally in Swedish, either over coffee back in Stockholm, or commuting between meetings around the world.

THE BIRTH OF A TRANSNATIONAL



Striving for balance

Not everyone in the US agrees with Ringler on this. But in Italy, Electrolux's third largest country of operations after America and Sweden, views are much more mixed than those voiced in the US.

On the plus side, Aldo Sessola, an old-fashioned hand who heads the joint group's white goods marketing in Italy, says "the lack of Swedes in Zanussi is a very nice surprise." When Electrolux bought the Italian company in 1984, he and his colleagues expected it to follow the same approach as Philips, the Dutch multinational, which imported a large team of

Dutch expatriates when it acquired Ignis, one of Zanussi's key local competitors, in the early 1970s.

"In our case, nothing of the kind happened, and there was no trauma," says Aldo Burello, Zanussi's washing machine development chief.

Instead of following the Philips lead — and the approach of countless American multinationals towards the staffing of past foreign acquisitions — Electrolux appointed two senior Italians to run Zanussi: Gian Mario Rosignolo as chairman and Carlo Verri as managing director.

Rosignolo and Verri stressed their intention of using Zanussi people, recalls Burello. And so it has proved in most cases, though a couple of senior (Italian) executives have since been bought in.

Moreover, Burello and another Italian, Sergio Passa, have been given senior international co-ordination roles within the Electrolux group — Burello for washing machine development and Passa for European white goods marketing. A third, Fulvio Borsero is now head of the company's product line.

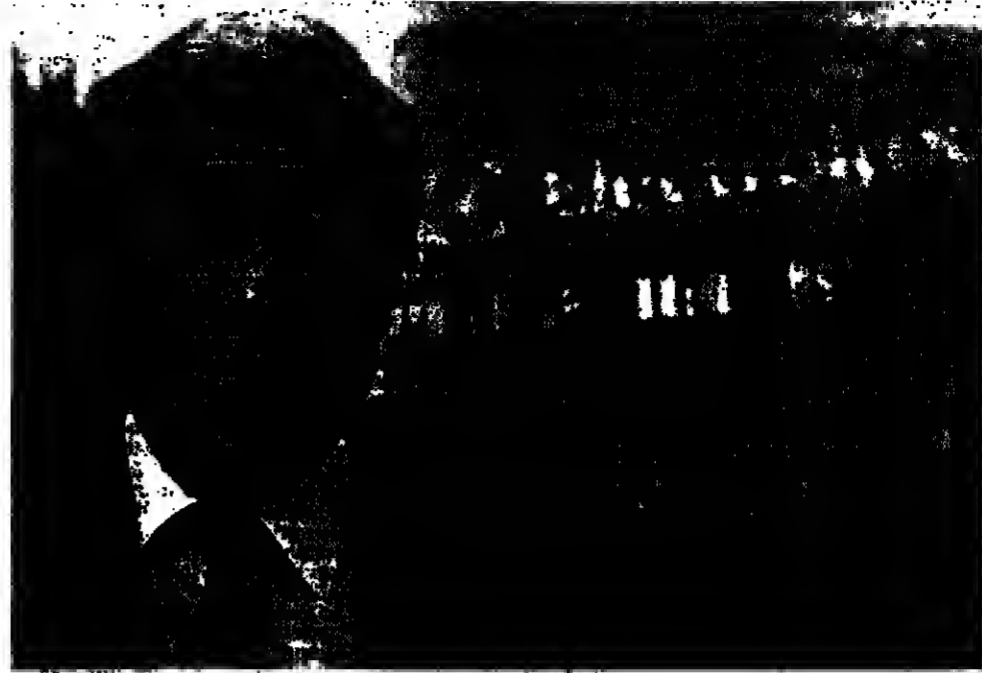
But, on the negative side, there is some unease in the Italian ranks about the fact

that all but one of the top Electrolux group management positions are still occupied by Swedes, the exception is Dan Blasin, an American who is Electrolux's long-standing top man in the US, but who now has only a limited line management role, operating instead mainly as an adviser to the central staff in Stockholm.

Rosignolo expresses the Italian feeling with some force. Electrolux needs to remember its 1984 promise not to "invade" the Italians, he says. "There has been no open criticism, but what is said is not always what people are thinking."

To some extent this attitude is unfair, and reflects the machinations of fate, rather than a reluctance on Electrolux's part to promote exceptional Italians. After Carlo Verri had turned round Zanussi in impressive style, he was appointed head of the new international components product line in early 1987, and a year later he was co-opted onto the Electrolux executive committee as a deputy member.

Had Verri stayed, he would probably soon have taken on a second product line as well, as several Swedes have done in the past year or two. But last



Anders Scharp: "We're not acting as quickly as we ought to"

summer he was offered a prestige job he could not refuse: the presidency of Alitalia, the troubled Italian state airline. Fulvio Borsero, his successor, now reports not to Anders Scharp, the Electrolux president, but to a different member of the management committee.

Scharp himself is acutely conscious of the need for Electrolux's management to have a more international complexion, both at the top and below. "The group is too Swedish today," he declares. "I've said many times that its future depends very much on the internationalisation of management. We've been trying to allocate group responsibilities internationally — but I'm worried that we're not acting as quickly as we ought to."

The problem is particularly pressing in Electrolux's largest division, the white goods product line, into which most parts of White and Zanussi have been integrated. Its head, Leif Johansson, recognises that good non-Swedish managers lower down the organisation "need to have a way to grow and develop international roles — otherwise we'll lose them."

One difficulty is that Electrolux's informal style, its reliance on personal relationships, and the continued use of Swedish among the top managers, make it hard for people based outside Sweden ever to become complete "insiders". Johansson admits that having key international co-ordinators based maybe thousands of miles

away from Stockholm is awkward, despite modern telecommunications, and that it is well-nigh impossible to get foreigners to come and live there.

Johansson has considered moving his entire management team to a more convenient and attractive international business centre, such as somewhere in England or Switzerland. But this would involve considerable personal dislocation for the many Swedes involved, which might generate just as much travel back to Stockholm. And he says it could all too easily create a situation 20 years from now where most headquarters staff were either British or Swiss, rather than Swedes as at present. That would solve nothing.

"So our position has to be that where we all live cannot be allowed to matter much," he says. Provided key people are prepared to continue travelling extensively (see below) the main priority must be for more and more international functions to be decentralised from Stockholm to elsewhere in Europe — and the US; this is one of the characteristics of a full "transnational", as opposed to a mere multinational.

One model for this within Electrolux is Aldo Burello's part-time role as the international head of product development in washing machines, in addition to his job as head of one product division in Italy.

To help broaden the perspective of all its managers from

their traditionally national horizons, and to breed a new cadre of internationalists, Electrolux last year launched an executives development programme for hand-picked managers between 33 and 43 years of age. Such programmes may be common practice in other companies, but Electrolux has relied until recently on finding new management talent through its many acquisitions, and has had a "rather negative" attitude to formal management education, according to Mats Aguren, the group's new administration director.

With 30,000 employees in the US, 16,000 in Italy and 12,000 in the UK, for example, "we must be able to train up these people," says Anders Scharp. "This will be one of the big issues of the next decade." Leif Johansson adds that "twenty years from now I'd expect a very mixed international group of people running white goods."

The question is how to get there. The answer may involve more dramatic solutions than Electrolux is at present willing or able to take. In the words of Gian Mario Rosignolo, "one day Electrolux will have to consider spreading its headquarters people around the globe, just like the Catholic Church — the only real multinational in the world."

Previous articles in this series appeared on June 19, 21, 23, 26 and 28. A reprint is being prepared by the FT publicity department.

Peripatetic executives take the strain but don't complain

Like many other senior Electrolux managers, Fulvio Borsero spends at least half his year travelling away from his office. As product line manager for the group's international component group, with sales of SEK 4.3bn (\$4.1bn), Borsero is based in Turin in Northern Italy. But his territory embraces 17 factories, with their output split between various places in Europe and North America.

Together with trips to Stockholm headquarters and to customers around the world — a good half of his sales are made outside Electrolux — his lifestyle is decidedly nomadic.

This way of operating,

which applies to most people at or near the top of Electrolux's product lines (divisions), as well as to top executives and senior staff from head office, is considered a great virtue by almost everyone in the group, in spite of its obvious personal drawbacks.

Most of the travel is on commercial airlines, but to save invaluable time Anders Scharp, the chief executive, and his deputy, Leif Johansson, make frequent use of one of the corporate jets, an aircraft which, as part of the big Italian acquisition of 1984, and is still known as "the Zanussi plane", as if it did not quite suit Electrolux's sparse corporate style.

"All of us reckon that the efficiency of this travelling is very high," says Borsero. "The speed of decisions you get by being on the spot is very much greater than it would be through reports, correspondence or whatever. Personal contact is by far the most effective."

Leif Johansson, product line chief for white goods and (unlike Borsero) a member of the group executive committee, says that for him and his immediate colleagues the system benefits all concerned in two ways.

On the one hand, it is important for local managers on the ground to meet people from head office as often as possi-

ble, to "give change a face," he says. "They need to see us not as bogey men from head office, but as normal people who say 'hi' to them, and discuss matters of common interest. It gives people the feeling that top management knows what the business is about."

Johansson agrees with Borsero that, in many ways, the system actually saves time. A graduate engineer, like most of his top Electrolux colleagues, Johansson says: "I'm too much of a technician to spend five hours in an office discussing plans for a new washing machine plant, when I can see for myself in half an hour."

In keeping up the pace,

Johansson and co need to be blessed with one or more of several attributes: an understanding family (he has one); youth (he is only 37); and a strong constitution (he has no trouble sleeping well on aircraft, whether on a short hop from Copenhagen to London or on a two-day dash to the US and back in the middle of a week in the office).

For Electrolux managers there is no question of following the old multinational rule, once prized by the likes of Shell and IBM, of taking a rest day at home after a flight on the transatlantic red-eye. If the Swedish company allowed itself that sort of luxury, it would quickly grind to a halt.

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But if it comes as something of a surprise, it is no coincidence. The WDA's strategy is to stimulate self-generated economic activity resulting in growing levels of indigenous and inward investment.

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But a growth area also needs the professional and service infrastructure to support corporate development. Which is why the WDA strategy also focuses on creating commercial as well as industrial expansion. And why major players like Tonche Ross and Debenham Tewson rate Wales as a key growth area. And why Rothschild have arrived.

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Contact Anna Prokic on (0222) 222666, or write to: The Welsh Development Agency, Pearl House, Greyfriars Rd, Cardiff CF1 3XX.

WE MEAN BUSINESS IN WALES

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FT LAW REPORTS

Liquidator can disclose documents to a creditor

AML HOLDINGS INC v AIDGER
Chancery Division: Mr Justice Warner; May 22 1989

THE LAWFUL acts of a liquidator are not confined to the exercise of his statutory powers to deal with the company's assets and liabilities for the purpose of the winding-up, but include acts incidental to his custody of company documents and other assets, provided their performance costs the company nothing. And, accordingly, a liquidator is not precluded from disclosing non-privileged and non-confidential documents to a creditor to assist it in litigation with defendants against whom he also has a claim, if it reimburses any expense, or if disclosure could benefit the winding-up in that the creditor may reciprocate.

Mr Justice Warner so held when dismissing an application by AML Holdings Inc for a direction that Mr GA Anger, liquidator of Acil Metals (London) Ltd, should not disclose information belonging to Acil to an Acil creditor other than for the purposes of the liquidation.

HIS LORDSHIP said that three of Acil's creditors had proved or were likely to prove in the winding-up.

They were Metall und Rohstoff AG (M & R), for about £344m; AML Holdings Inc (AML) for about £11m; and the Inland Revenue for an amount which would probably be between £262,000 and £1m.

M & R had commenced two actions in England against AML and Donaldson Lufkin & Jenrette Inc.

The first, begun in 1987, was a claim for indemnification in breach of contract, the gist of which was that Donaldson Lufkin and AML had induced Acil to break its contract with M & R.

The facts on which that

claim was based were much the same those on which misfeasance proceedings by the Acil liquidator were based.

A second action was brought by M & R against Donaldson Lufkin and AML in 1988.

M & R had also brought a fresh action against the same defendants in New York.

The liquidator said in an affidavit that he might have claims against AML other than the claim for misfeasance, including a claim for interest on a loan.

The present application related to documents in the liquidator's possession. The court was only concerned with those to which rights of privilege and confidentiality did not apply.

AML contended that even in the case of such documents, it was entitled to safeguards in connection with their disclosure to M & R. The liquidator had said he intended to produce reports to M & R on specific aspects of Acil's affairs, and to discuss them with M & R.

By the present application, AML sought a direction that, save under compulsion of law, the liquidator should not disclose to M & R any reports, documents or information belonging to Acil, without first obtaining a written undertaking from M & R that it would not use them other than for the purposes of the Acil liquidation.

AML conceded that the liquidator was entitled to disclose documents and information to M & R for the purpose of obtaining assistance from M & R in pursuit of his own claims against AML. It contended, however, that he could not disclose documents or information for the purpose of assisting M & R in its claims against AML.

The foundation of AML's case was that the liquidator had no power to use documents belonging to Acil or the information derived from them

for any purpose other than for the purposes of the winding-up.

Mr Chadwick for AML contended that the liquidator in a winding-up by the court had only the power conferred on him by statute, and that nowhere in the Insolvency Act 1986 or any other statute, was there a power to use the company's documents for any other purpose.

He pointed to section 143 of the 1986 Act, which defined the liquidator's functions as "to secure that the assets of the company are got in . . ."

He then pointed to section 167 which introduced Schedule 4 in which the liquidator's powers were listed. In none of the paragraphs of that Schedule was there a power enabling the liquidator to use documents belonging to Acil for the purpose of assisting M & R's pursuit of its claims against AML.

Mr Chadwick cited *Re North Brazilian Factories (1887) 37 Ch D 634*, a case on section 156 of the Companies Act 1982, which was the ancestor of section 155 of the Insolvency Act 1986.

That section was concerned with inspection of company books and papers by creditors and contributories under an order of the court.

Mr Chadwick's point was that such inspection could only take place with a view to the more beneficial winding-up of the company.

Mr Mann for the liquidator said that a fallacy underlay the contention, in that the present case did not concern "power" in the sense in which it was used in Schedule 4.

He said Schedule 4 conferred on a liquidator power to enter into transactions affecting the company's assets and liabilities so as to bind the company, its creditors and contributories. It was not concerned with matters that were merely incidental to the custody of the company's assets, including its

documents.

He gave examples illustrating the extraordinary consequences that might flow from accepting Mr Chadwick's contention.

Suppose, he said, that a company developed an estate and went into liquidation having in its possession old documents relating to that estate; and suppose that someone got involved in a boundary dispute to which the company was not a party, and asked the liquidator if he could look at the documents to see if they helped his case.

While the company was a going concern, its directors could have acceded to that request. Was it to be said, Mr Mann asked, that when the company was in liquidation, the liquidator was compelled to refuse because Schedule 4 did not empower him to accede to it?

Mr Chadwick's answer rested largely on *Hutton v West Cork Railway (1883) 23 Ch D 654*. In that case the Court of Appeal held that since the company was no longer carrying on business its directors only had such powers as were necessary for or incidental to its winding-up.

He submitted that acts of "neighbourliness" were within the incidental powers of directors of a company which was a going concern because it was in its interests that it should be well-regarded by the outside world.

Once, however, the company

had gone into liquidation, that was no longer so. Its interests were then confined to its winding-up.

Hutton was not in point. The proposal there was that payments should be made out of company assets to compensate officers for loss of employment.

If Mr Mann was right in saying one might distinguish between a power to do something affecting assets or liabilities and a power to do something that did not impinge on assets and liabilities, but was merely incidental to the custody of assets, *Hutton* was clearly about the first category.

Nor did *North Brazilian Sugar* really help. There Lord Justice Cotton said: "I do not say that in no case can general inspection be ordered where it is not for the general benefit of the contributories, but *prima facie* it is only to be ordered with a view to their general benefit."

The distinction suggested by Mr Mann was sound.

The law would serve no useful purpose if it forbade a liquidator to do acts falling within Mr Mann's second category.

That was on the footing, however, that such acts cost the company nothing.

The court raised the question whether it was relevant that, in complying with requests from M & R for documents or information, the liquidator would almost inevitably incur expense. He was a

professional man and charged for his own and his staff's time.

Mr Chadwick replied that it would be unlawful for him to comply with M & R's requests whether or not he incurred expense in doing so.

Mr Mann's reply was that it would be open to the liquidator, if he thought fit, to require M & R to indemnify him against the cost of supplying it with documents and information. However, he must bear in mind the need to remain on good terms with M & R.

Helping M & R in the pursuit of its claims might be the price he had to pay for M & R's help in pursuing his own claims. If so, helping M & R would be beneficial to the winding up and would be within paragraph 13 of Schedule 4.

Mr Mann's reply was accepted.

This was a field in which a liquidator must exercise a discretion and in which what he did as simply incidental to the custody of the documents might shade into something he did under paragraph 13.

The application was dismissed.

For AML: John Chadwick QC and Richard Sheldon (Freshfields).
For the liquidator: Anthony Mann (Wide Sapte).

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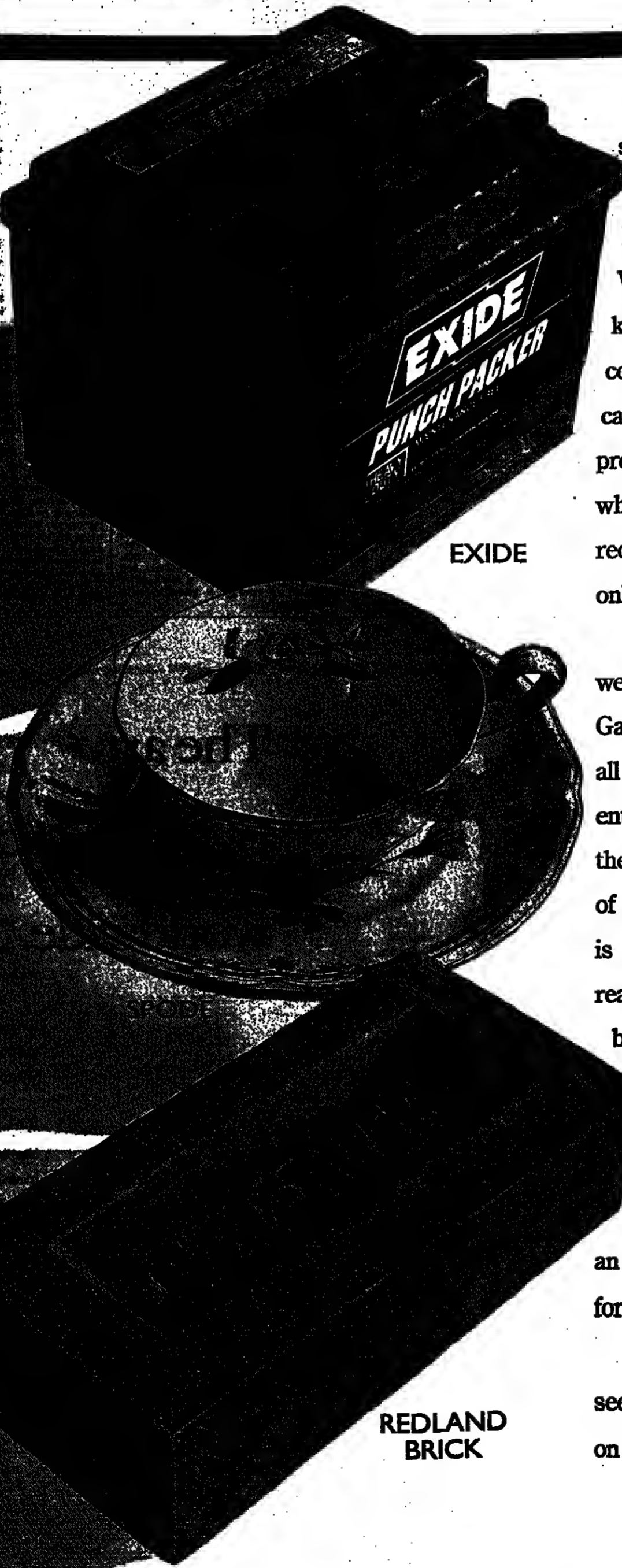
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Not surprisingly, these companies were amongst the winners of this year's Gas Energy Management Awards. In fact, all 331 of the companies who entered are benefiting from the greater energy efficiency of gas. Naturally, British Gas is by no means the sole reason for their success. But



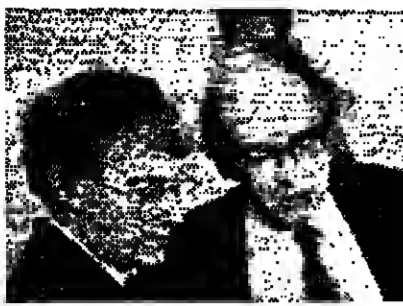
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TECHNOLOGY



Stanley Pons and Martin Fleischmann

While many scientists have poured cold water on cold fusion, at least one large company is backing further research, as Clive Cookson discovered in an interview with Fleischmann and Pons

GE backing softens blow of scientific scepticism

General Electric, one of the largest US companies, is to collaborate with the University of Utah to develop the "cold" nuclear fusion discovery of Martin Fleischmann and Stanley Pons.

The GE agreement has prompted the Governor of Utah, Norman Bangert, to ask for the release of \$5m of state funds to set up a fusion research centre at the university. He regards the controversial discovery, first announced on March 29, as now "confirmed".

This is despite the fact that many laboratories have failed to confirm the Fleischmann-Pons finding that a palladium electrode immersed in heavy water produces large amounts of heat through nuclear fusion. The UK Atomic Energy Authority's Harwell laboratory gave up its cold fusion research programme after three months of intensive work by 10 scientists had failed to produce any positive results. Publicity given to the failure at Harwell has caused many people to conclude that cold fusion is dead.

Elsewhere, however, signs of nuclear fusion in palladium have been reported. A few scientists have measured excess heat output and some have detected the expected products of fusion: neutrons (sub-atomic particles) and tritium (a radioactive isotope of hydrogen).

US institutions where scientists have found some evidence to support Fleischmann and Pons include Stanford University, Texas A&M University and Los Alamos National Laboratory. "Altogether 20 to 30 research groups have piecemeal confirmation of our findings," Pons says.

The level of scientific support, combined with GE's industrial collaboration, may be sufficient to persuade the state to fund a cold fusion research centre at the University of Utah, despite intense criticism of Fleischmann and Pons from many other quarters. The plan is for about 40 scientists to work in a 22,000 sq ft laboratory on the university research park.

The university expects shortly to sign a second industrial collaboration agreement - with Johnson Matthey of the UK, the world's leading supplier of platinum metals, including palladium. "Johnson Matthey is number one in platinum metal chemistry," says Fleischmann.

The company is working with Fleischmann and Pons to identify the critical features of the palladium electrodes. The patchy experimental results

so far suggest that cold fusion is highly dependent on the precise crystal structure of the palladium and on the level of impurities in it.

"We will continue to do whatever work we consider appropriate to increase our understanding of this interesting but confusing field," says Bruce Tofield, director of the Johnson Matthey Technology Centre.

The advantages of collaborating with GE, one of the world's largest high technology companies, are clear. "Right at the beginning I said we had to work with GE because I wanted to have their patent team on our side," Fleischmann says. "We know their electro-chemists and the overall strength of their industrial laboratory."

GE will initially assign four scientists to work with the university on cold fusion. The company will also make available materials, equipment and other resources. "If we have to design a new piece of equipment with elaborate pipework, they will put an engineer on to it - which will save us having to go to the textbooks to do it ourselves," Fleischmann says.

The two electro-chemists have spent the last fortnight in England. They are secluded in Fleischmann's family home in rural Wiltshire, far from the fusion fever that still grips Utah, trying to rest and to prepare a second scientific paper which will give a fuller account of their solid-state fusion experiments. (They

prefer the phrase solid-state fusion because the nuclear reaction takes place in a crystal lattice, rather than in the gas plasma of a conventional fusion reaction.)

They admit that their first paper, published in April in the *Journal of Electro-Analytical Chemistry*, was not as complete as they would have liked. They are now carrying out more control experiments, with cells containing light water as well as heavy water and a larger number of different electrodes. The input and output of heat is being analysed via two independent calorimetric techniques.

Meanwhile the experiments bubble on in Pons's chemistry lab in Salt Lake City, tended by colleagues who fax the latest readings from the instruments to England every day. "By the end of this summer, we want to get to the position we had hoped to reach by the summer of 1990," he says.

Their plans have been hastened by the early publication, which Fleischmann says was forced on them. This was because a rival research team at Brigham Young University, headed by Steven Jones, wanted to publish the results of similar cold fusion experiments which produced neutrons but no heat. "Knowing as we did that there was an excess release of heat, it was inconceivable that we should not inform the University of Utah and inconceivable that the university

should not apply for a patent."

Pons and Fleischmann personally opposed the university's decision to announce their results through the March 23 press conference - an event that brought them not only instant celebrity but also instant hostility from many scientists who thought that they should have followed the traditional procedure of publishing in a scientific journal.

Fleischmann says that he does not understand why the Harwell experiments, which he helped to set up, failed to produce evidence of solid-state fusion. He claims, however, that experiments failed in some other laboratories because "incompetent" physicists did not understand the principles of electro-chemistry.

And he denies the suggestion that he and Pons may deliberately have withheld key information about the process in order to delay other scientists while they pursued their experiments. "We have not consciously kept anything back, although we are conscious that there are factors which are important and which people ignore."

Fleischmann now believes that two separate nuclear processes can take place in palladium electrodes. One is a "background process" which produces fairly steady low levels of heat. The most likely candidate for this is two deuterons (deuterium nuclei) fusing to form helium-4; the energy of the reaction is transferred directly to the crystal lattice as heat.

The second process is far more energetic. It gives occasional bursts of heat, tritium, neutrons and radiation. In this case, the fusion of two deuterons produces either tritium and hydrogen or helium-3 and a neutron. The special conditions that initiate and terminate the fusion bursts remain unclear.

On their plans for the future, Pons and Fleischmann say that they "do not want to manage a huge solid-state fusion development project. However, we will be involved in developing a cell which gives a ready demonstration of excess heat generation."

Looking several years ahead, Pons sees the first practical application of solid-state fusion in "providing low-grade heat for space heating."

The next phase would be to use the heat from fusion cells to raise low-pressure steam for electricity generation. They believe that one palladium rod could eventually produce "a few tens of kilowatts" of energy - enough for a single household.

Less muck in the coal

BRITISH Coal is to spend nearly £10m fitting underground coal-cutting machines with automatic steering, a technique developed in the UK.

About 50 sheavers - machines that cut and load up to 1,500 tonnes of coal an hour - will be involved in the programme which is designed to increase efficiency.

The automatic steering system makes use of on-board sensors which measure the natural gamma rays emitted at very low level from the rock layers above and below the coal seam. The information is fed to a computer which controls the machine which controls the revolving cutting drum, keeping it within the seam as it makes its run along the coal face.

The new machines could save British Coal millions of pounds in lost output because for every two tonnes of coal won, one tonne of dirt is taken to the surface, half of which comes from the face. Automatic steering reduces the amount of dirt mined from the face by up to 40 per cent.

These systems are only suitable at present for half the UK faces. British Coal's research centre at Ebbw Vale, in the Midlands, is aiming to make them universally applicable.

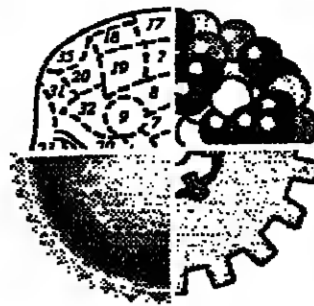
Human shortages in telecoms

THE UK's shortage of telecoms engineers is getting worse, according to a survey of 500 professionals carried out by PA Consulting Group of London.

Many work long hours just to keep abreast of work - one individual was receiving the equivalent of two thirds of his annual salary in overtime earnings. "Basic salaries," says the report, "clearly do not represent the true level of earnings of these specialists."

The survey, entitled *Employment, Pay and Benefits Trends in Telecommunications 1988*, looks at jobs ranging from engineer to director of telecoms. Shortages exist at most levels and PA says this could affect the UK's ability to operate successfully in the single European market.

To attract and retain people, companies are being



WORTH WATCHING

Edited by Geoffrey Charlsh

forced to top up salaries with a wide range of other payments and benefits, including private medical insurance and company cars. The survey costs £300.

Quick change of venue

A FRENCH architect, Henri Chauvet, has devised a means of turning an 800-seat auditorium into an open arena for a sporting event in less than half an hour.

The system makes use of an adjustable floor with collapsible seats. Each row of seats is mounted on continuous, electro-mechanical chain lifting.

A single operator can modify the entire space, either by removing the seats altogether (into a storage space under the stage), or by taking out some of the rows according to the seating capacity required.

It is also possible to raise the floor, using hydraulic jacks, so that it slopes upwards from the stage to give better visibility. Once the computer has calculated the best angle for a particular event, a set of metal supports is automatically moved into place to reduce wear and tear on the jacks.

Sales forum for phone lines

COMPANIES needing telecoms capacity will be able to find out the details of services leased from British Telecom or Mercury, via Resale Forum, a service being launched by Octagon Telecommunications Services, of London.

Until recently, a company with such capacity was forbidden to sell any of it to third parties, but an

announcement by the Trade and Industry Secretary has changed that. Now it is possible for companies to club together to share high-capacity private circuits. Furthermore, professional re-sellers may set up in business, offering discounts on Mercury and BT prices.

Resale Forum will keep a central register of routes in the UK on which re-sellers are offering capacity. Using electronic mail to send material to personal computers, it will publish a newsletter, offer an advisory service on the regulatory and technical aspects of re-sale, and set up an information exchange to allow buyers and sellers to broadcast needs and offers.

Membership of Resale Forum costs £140 per user per month, which will cover unlimited use of Octagon's information service.

A system for form filling

RAIK Xerox is offering software for dealing with forms on a personal computer. The package includes data entry, form creation and database management.

The company believes that because forms are so widely used - and are still largely paper-based - the new system, called FormBase, could prove as important as spreadsheets, databases and word processing. According to Delaquest, the market research organisation, 33 per cent of business documents are forms.

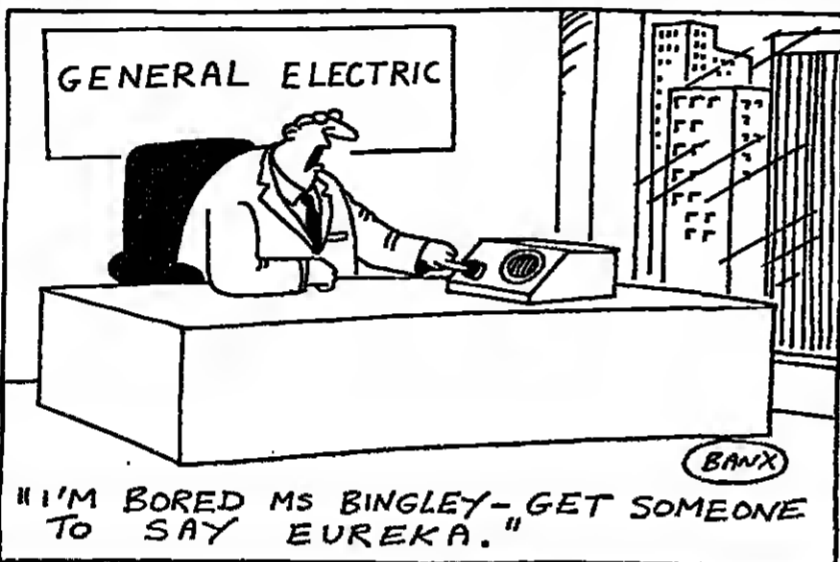
Rank Xerox, which had early success in desk-top publishing with its Ventura software, hopes to do the same with FormBase, which it thinks could establish an industry standard.

Faxed junk thwarted

PITNEY Bowes, the office equipment company, has developed software that can counter junk mail sent by fax to its model 4400 fax machine.

The user decides which sending fax numbers are acceptable and programs them in, locking out the junk transmitters.

CONTACTS: British Coal: London, 256 2500; PA Consulting Group: London, 259 2000; Jean-Pier Huet: Resale Forum, 1 4702 2612; Octagon Telecommunications Services: London, 078 1981; Rank Xerox: 0432 2995 0133; Pitney Bowes: UK, 0279 26271.



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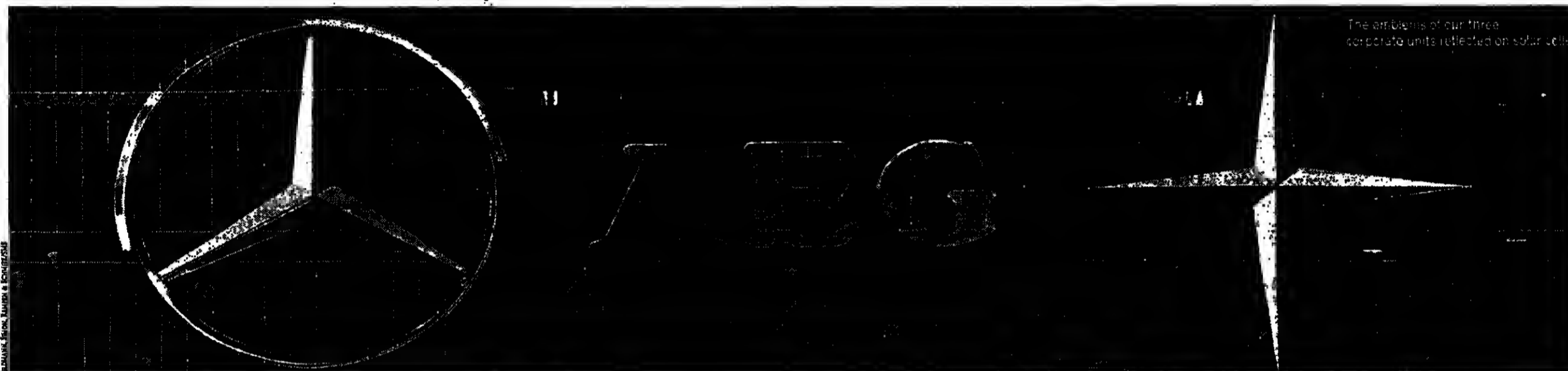
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no faith in tomorrow."

John F. Kennedy



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Daimler-Benz Group	1988	1987
Employees	338,749	326,288
Domestic	268,277	262,658
Foreign	70,472	63,630
Sales (in millions of D-marks)	73,495	67,475
Domestic	29,094	28,064
Foreign	44,401	39,411
Mercedes-Benz		
Passenger Cars	31,833	31,472
Commercial Vehicles	23,063	19,454
AEG	13,152	11,480
Deutsche Aerospace		
Dornier	1,889	1,589
MTU	3,087	2,832
Investments	7,007	3,736
Research and Development	4,800	4,100
Personnel Expenses	22,371	20,670
Net Income	1,702	1,782

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Friday June 30 1989

Journey into the unknown

THE LATEST issue of the OECD's Economic Outlook displays an intriguing mixture of pleasure and perplexity. The pleasure is over the recent performance of the economies of the industrial countries. The perplexity is over how the world economy now works and so whether the performance of the past can continue.

"The present upswing is," as the report remarks, "in its seventh year and, in 1988, OECD gross national product grew by over 4 per cent... Productivity performance has generally improved since the early 1980s. The average OECD rate of unemployment has fallen to 7 per cent, back to where it was in 1981. OECD governments can build on these achievements - the fruits both of the policies implemented in the 1980s and of strengthened international co-operation - to promote sustained, job-creating growth with low inflation over the next decade."

These remarks largely coincide with those in recent reports from the IMF and the Bank for International Settlements. As cautious international bureaucrats, the authors fret about inflationary risks, international imbalances, and Third World indebtedness. But underneath one senses growing belief that the progress of the 1980s could be much more than a mere recovery. It could be the start of a long period of sustained economic growth, similar to that before 1973.

Two clouds

What has been happening is certainly encouraging. Economic growth is expected to remain at 3 1/2 per cent for the OECD as a whole in 1989, following no less than 4.1 per cent in 1988. Although productivity rose by 2 1/2 per cent in 1988, well above the average in earlier years, total employment in the OECD countries still rose by 1.8 per cent in the same year. Employment has even been rising in Europe during the last three years, while the rate of unemployment in that region has at last started to decline, if slowly.

There are two clouds on the otherwise bright horizon: inflation, which has increased by around 1 percentage point over the last year, and the persistent external "imbalances." "These imbalances," remarks the OECD, "tended to diminish during the course of 1987 and

British Rail and the unions

THE PRIME MINISTER was right yesterday to resist backbench Conservative pressure for the rapid privatisation of British Rail as a panic response to the disruption caused by two one-day strikes. Successful privatisation requires very careful preparation, as Mrs Thatcher explained, and the long-term future of Britain's railways is too important to be used as a weapon to bash the National Union of Railwaymen. Attention should now shift to ways of bringing BR and the union together for negotiations which will solve the present dispute and lay the basis for more orderly industrial relations in the future.

It is easy to understand rail workers' frustration with the 7 per cent pay award which has been imposed upon them. Their fall in the pay league, the recent rises in inflation, the allure of better paying jobs with private sector companies, and the extent of the changes BR is asking for in collective bargaining machinery have prompted a demand for a rise of at least 10 per cent.

Averted dispute

The contrast with the way the threatened dispute in electricity was averted is instructive. The employers did not fuel speculation of an improved pay offer merely to dash it. They simply raised the offer in negotiations. British Rail challenged the NUR strike vote on the grounds that a handful of the 70,000 people balloted had not received ballot papers. In electricity hundreds of workers at one power station did not get ballot papers. Yet the employers did not reach for a writ because they had a clear strategy to resolve the dispute through negotiation. The settlement in electricity was high, at 9.2 per cent. But it contained a commitment from the unions to

discuss more flexible, decentralised approaches to bargaining.

The NUR and BR should now take the dispute to conciliation and then arbitration if necessary. A settlement may well require an improved pay offer.

As for the longer term, the corporation stands by its plans to replace centralised national bargaining with bargaining based on five operating units. This would allow it to tailor pay more to the pressures of the different labour markets it competes in. BR should also consider a much tighter approach to conciliation and arbitration of the kind many companies have introduced on greenfield sites to ensure continuity of production.

Marginal competition
World privatisation, in one or other of the forms under review, lead to fewer strikes? Breaking up the corporation, either on the basis of its existing business sectors or regionally, would make it much more difficult for the NUR to mount a successful national strike, but no one should be fooled into thinking that competition between companies would be anything more than marginal.

Privatisation as a going concern might be a better commercial alternative, and could have a positive effect on industrial relations if it was combined with greater autonomy for the operating units within BR. That option remains open, but is likely to have lost support during the events of the last two weeks. Ministers should resist the temptation to ditch it without further aerobics thought.

Meanwhile, the Government, British Rail and the unions have to consider approaches which will at least reduce, if not wholly eliminate, the likelihood of further national strikes. Legislation limiting the scope for industrial action in essential, quasi-monopoly public services may be part of the answer, but it has to be linked with a new settlement within the industry under which the union and the corporation meet their responsibilities to their customers.

From tomorrow IBM West Germany will be able to link its personal computers directly into the country's telex system. It will no longer have to go through the tortuous route of sending them via the UK.

West Germany's current ban on linking personal computers to the telex network is just one of a mass of restrictions that will be swept away in tomorrow's long-awaited reform of the Bundespost, the state-owned post and telecommunications authority. Designed to enable the country's telecommunications system to respond better to modern business needs, the law aims to make the Bundespost more dynamic and half opens the door to competition.

Opponents critics, who view the Bundespost as the "Fortress on the Rhine," remain unimpressed with the failure to privatise any part of Europe's largest business and with the rejection of competition on the basic telephone service.

But seen from a German perspective it is a radical step. "The first real reform of the century," says Mr Christian Schwarz-Schilling, Minister of Posts and Telecommunications, who has already dismantled public sector broadcasting monopolies in television and radio.

Although the liberalisation is less dramatic than that implemented in the US, UK or Japan, West Germany has tried harder than the others to reconcile competing business and social needs. Its approach could prove an attractive model for other countries which want to revamp their state-owned telecommunications services but are not prepared for fully-fledged liberalisation.

Although this new structure sounds neat in theory, there are doubts about whether it will work in practice. For example, critics point out that the boundaries between the three different types of services are vague, leading to fears that Telekom might expand the definition of monopoly and mandatory services and leave only a small area truly competitive.

It is already clear that the monopoly will extend beyond the basic voice services to include services which combine voice with pictures or data such as picture phones and video-conferencing. This is because the Government considers that basic voice forms the "main" part of these services. These multi-media services are expected to become increasingly popular.

There is similar concern over the boundary between mandatory and competitive services. The Government has made no decision on which services should be mandatory, although Mr Schwarz-Schilling mentions facsimile, telex and telegrams as possibilities.

The Minister argues that private operators will still be allowed to compete and will actually be at an advantage because Telekom will be obliged to provide a universal service whereas they will be able to cherry-pick.

The snag is that Telekom will be permitted to subsidise these mandatory services from its monopoly profits. Although the cross-subsidy is not supposed to exceed the level needed to meet universal obligations, there are doubts whether this can be policed effectively.

This concern leads into a more general worry that the whole method for policing Telekom is inadequate. The experience of telecommunications liberalisation in both the UK and the US is that regulators need to maintain a sharp eye to prevent the dominant supplier abusing its position and crushing its competitors.

David Goodhart and Hugo Dixon look at West German moves to liberalise telecommunications services

Fortress Rhine lowers the drawbridge

full coverage to maintain the quality of life of their people," says Mr Schwarz-Schilling.

The outcome is a three-tier system of telecommunications services: continuing monopoly services; mandatory services which Telekom must make available on demand across the country but which private companies will also be allowed to offer; and fully competitive services.

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Failure to privatise any part of Europe's largest business has left the Bundespost's overseas critics unimpressed

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But, while the US and the UK have both set up independent bodies to regulate telecommunications, the new German regulatory authority will reside in the Posts Ministry.

How can there be fair competition if Telekom's owner and regulator are the same, asks Professor Christian von Weizsäcker, a leading academic authority. Won't the Minister have an incentive to lobby on behalf of Telekom to the detriment of competitors, turn a blind eye to unfair cross-subsidisation and generally interpret the rules in a way that favours Telekom?

Mr Schwarz-Schilling dismisses these fears by arguing that the regulatory authority will be entirely independent from Telekom and that it is not the Posts Ministry but the Ministry of Finance which owns it. This, however, seems something of a quibble, since Mr Schwarz-Schilling also argues that it is his Ministry not the Ministry of Finance which will have the major say over Telekom's budget.

Some fear that vagueness over what is open to competition and concern over inadequate policing will scare away potential competitors. Others wonder whether the private sector will have the gumption to take advantage of the new opportunities.

Though far from perfect, the new regulations are an improvement on the current situation. Given that some entrepreneurial companies have managed to find loopholes in the present regulations, it seems fair to assume that more competition will emerge under the liberalised regime.

One source of competition will be from those companies which are already offering services in a small way. For example, Megamet, a Cologne-based service provider owned by a group of insurance companies, has started leasing lines in bulk from the Bundespost and selling capacity to them for data traffic to third parties at a discount. Volkswagen, IBM, and KDS, the General Motors subsidiary, have electronic mail and electronic trading operations.

Another source will be large companies which are already using telecommunications extensively for their own use. They would be in a good position to open up these networks to third parties for a fee.

But perhaps an even bigger question than whether competition will emerge is whether the reform will make Telekom a more dynamic and customer-friendly organisation. What incentive is there to improve efficiency since the company is not being privatised and competition in the basic phone service is excluded? Mr Schwarz-Schilling's answer is incentive pay, which he has won the right to introduce after a bitter politi-



Christian Schwarz-Schilling: "Foreigners will be quite astonished"

cal battle. However, the scheme only applies to certain grades and covers no more than 10 per cent of pay.

Similarly, there are doubts whether telecommunications tariffs will fall sufficiently quickly - which is how consumers will judge the success of the reforms - given that such matters will still be decided by political bodies.

Although the Bundespost is being split into Telekom, Post and Post Bank, above them will be a directorate consisting of the chiefs of the three businesses. Parallel to this will be an Infrastructure Council consisting of 11 Länder representatives and 11 Bundestag representatives. This will have some say in such crucial areas as rebalancing tariffs and new investment.

Telecommunications prices are 15 per cent higher than they would otherwise be because the telecommunications business has to support the loss-making post business, says Mr Karl-Heinz Neumann, head of the Bundespost's semi-independent think-tank.

Even after an extremely unpopular rise in postal rates, the business will not break even until the mid-1990s. The combination of both activities under a common directorate could make it difficult to root out this subsidy.

A further subsidy which economists claim is distorting the market, is from long-distance to local calls. The result is that a standard three-minute long-distance call in Germany costs the equivalent of £1.08, compared with 40p in the US and only 30p in the UK, according to the London-based National Utility Services. A standard local call costs 7.2p - somewhere between the US's 4.5p and the UK's 9.9p.

A vigorous rebalancing exercise is now under way, with the aim of cutting the tariff on long-distance calls by almost half and increasing that for

local calls by 25 per cent over three years. Even then the subsidy will not be completely eliminated and there are fears the programme will fall foul of the Infrastructure Council.

There are also fears that the Infrastructure Council could slow Telekom buying cheaper network equipment from foreign suppliers. Foreign manufacturers have been successful in a number of fringe areas - GPT of the UK, for example has sold intelligent payphones to the Bundespost - but not in mainstream areas of switching and transmission equipment.

The Posts Ministry's response is that SEL, the second largest supplier, is foreign-owned and that foreign-based companies have not made enough effort in the past to adapt to German standards. "Many foreign companies just decided that the German market was too small to be worth the effort," says Mr Schwarz-Schilling.

The Minister accepts that the German system of checks and balances means tough political battles ahead to prevent the reform being watered down. But the very fact that the German Government has staked its reputation on the current reforms means it has a vested interest in seeing them succeed. The choice of Telekom chief executive, expected at the end of the summer, will give an early indication of its strength of purpose. The Government has already decided not to choose an insider.

At the same time, the new regime will create its own vested interests. As business customers get used to their new freedoms, they will probably clamour for more.

These pressures make it likely that the next step in Germany will be a further opening up of the market rather than a retreat to the Rhine Fortress. If foreigners come back in several years, says Mr Schwarz-Schilling, they "will be quite astonished to see the effect."

Britain's new demon

Jimmy Knapp of the railwaymen has replaced Arthur Scargill of the miners as a contemporary demon: unlikely perhaps, but Knapp was once described by his predecessor, Sid Weighell, as "wet behind the ears, a stooge of the Communist and Trotskyist Left."

His election to general secretary in 1988 was the Minister of Transport, from the right to the left of the Labour movement, but he has never shared Scargill's fundamentalist brand of Marxist-Leninist Militantism. Militants within the NUR want an all-out transport strike to bring down the Government. Knapp wants 24-hour strikes to press British Rail into negotiation.

One fellow trade unionist said of him yesterday: "He is a typical product of radical Scottish trade unionism, but not all the time. Above all else, he's a pragmatist."

A railways manager said: "Jimmy is a basically honest, nice person, but he's no great intellect."

Now 48, Knapp began as a signalman at the age of 15 and steadily worked his way up the union hierarchy. When not taking long walks in the English countryside (his favourite hobby), or leaving TUC meetings early in order to get home to his wife (his best friend), he has spent most of his official time since becoming general secretary trying to improve the internal democratic process of the NUR.

Although he singlehandedly imposed his will on the union on some issues, such as the acceptance of the Government's reform of trade union ballots, the latest union campaign has Knapp simply doing what his rank and file have voted that he should do.

His Scottish accent is so broad that it was once described as gurgling with whisky. But he is not an angry man by nature and believes in taking the trade union case

OBSERVER

to the public. Earlier this year he told railwaymen to dress up as sardines in order to bring home to the commuter the problems of working in overcrowded trains.

French rock

The arm of the French state remains remarkably long. Jack Lang, the Minister of Culture, has just appointed a man to look after the rock music scene. Three large halls for rock concerts are under construction, as well as around 40 smaller ones which will have the backing of the local authorities. These are known as "pub-rock" and the first one will open shortly at Rio-Orange. According to Le Monde, Lang's ministry is also busy looking at the plight of French popular music in the future European Community. Are the British falling behind?

Real games

Carl Icahn and T Boone Pickens, the arch-rivals, Henry Kravis, the king of the leveraged buy-out, and the Dalai Lama are all going to the same conference. They are being brought together by John Diebold, the father of the term "automation" and top management consultant.

The occasion is the 21st conference of CIOES, the Conseil International pour l'Organisation Scientifique, the venue New York in September. Jack 49 member organisations. CIOES takes its name from the "scientific management" movement which swept the industrialised world in the 1920s. The first congress was held in Prague in 1924, convened jointly by the Czech President, Thomas Masaryk, and Herbert Hoover before he became President of the US.

There will be a range of presentations, discussions and "live" (partly acted) case



"You didn't fill in your poll tax form because your rottweiler ate it"

studies, on topics from the industrialisation of developing countries to the management of a hospital. The highlight will be what Diebold calls "a theatre-in-the-round presentation of The Board and Top Management," or "A Board Under Siege."

Actors will be real-life stars of business and politics, including Robert Anderson, former chairman of ARCO and now president of Honda Oil, who will play the chairman of a company with ecological problems. Carl Icahn will arrive with a takeover offer, backed by Fred Joseph of Drexel Burnham Lambert, the junk bond specialist. The supporting boardroom cast will include the Rev Jesse Jackson as a public director. The Dalai Lama will be fitted in by giving a talk on the role of the individual in today's organisation-dominated world.

Pink in Chile

Although red and pink are dangerous colours in Chile,

a pink financial daily paper has emerged. Is coincidence or is it blatant imitation? Roberto Mesa, director of El Diario Financiero, says that it is the latter, but he admits sadly that his pink is not quite as intense as that of another newspaper.

The paper started in white nine months ago, and switched to pink last week. The idea of subliminally associating it with the Financial Times, which is well-known if not widely read in Chile, is considered a marketing strategy in an overcrowded newspaper market. It is Chile's only financial daily paper.

El Diario Financiero is a small operation: 14 journalists and a circulation of 10,000 per day. The paper is breaking even. Thanks to computer technology, it is easy to produce and it sells for 100 pesos or 35 US cents against nearly \$2 for the FT. Advertising is beginning to come in.

Into Africa

Where are the Hong Kong Chinese going? Some of them are going to Nigeria where they are beginning to dominate the restaurant business. I noticed this myself on a visit last month, but did not realise it was new. It is now confirmed by David Williams, the great West Africa expert who has been celebrating his 75th birthday there. The Chinese have taken over the former French restaurant at the top of the Eko Hotel now run by the Meridien group in Lagos, and very good it is. The takeover is by no means confined to the capital.

Uxorious

The story is told of a Sheikh who went into a large Marks & Spencer and asked to buy an entire rail of night dresses. "But they're different sizes," the assistant said. "So are my wives," he replied.

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POLITICS TODAY

When the crown starts to slip

By Joe Rogaly

The myth of Margaret Thatcher, superstar, may have peaked on May 4th, ten years after she became Prime Minister.

Today, only 8 weeks later, more of her admirers are beginning to see her for what she really is: not a surrogate queen, but merely a lucky and ill-fated politician who has been perceptive enough to catch an incoming tide. The question of the hour, therefore, is whether that tide is now receding.

In one important sense the answer is yes. Mrs Thatcher faces a potentially strong opposition for the first time since she became leader of the Conservative Party in February 1979. This does not mean that she necessarily faces defeat in 1991 or 1992. It is still extremely unlikely. The resurrection of the Labour Party is nevertheless of some significance. For Mrs Thatcher has had no experience of such a phenomenon. In her early years she was herself in opposition, a fledgling more than half afraid of the Prime Minister, Harold Wilson. Under his successor, Jim Callaghan, the Labour Government defeated itself in the 1979 election that brought her to power. Her immediate task at the time was to establish her ascendancy within her own party.

She did this well, but there was room in which to do it. The Labour opposition she then faced was divided and demoralised. In January 1981, just 20 months into what was to become her long reign, the party split and the "Gang of Four" (never mind their names now) launched what became the Social Democratic Party. It is fascinating to recall the immense risks that the Labour Party took at the time, what hindsight teaches us is that the schism in the Labour Party made it possible for her to proceed without excessive fear of retribution at the polls.

In the 1983 election, flushed with success in the Falklands war, Britain's first woman Prime Minister was therefore blessed with a diminished and hopelessly left-inclined Labour party. It was led by the incompetent Mr Michael Foot. The excitement over the joint performance of the SDP and the Liberals was intense: what became the Alliance attracted a quarter of the votes cast, just two percentage points behind Labour. Many of us imagined that the Labour Party was in terminal decline, and that the Alliance might eventually replace it.

Simple arithmetic attracted less attention. Yet basic mathematics showed that the Tories could go on winning indefinitely on a 40 per cent vote. The reason was that there were three candidates to vote against the Tories, and the far smaller NUP.

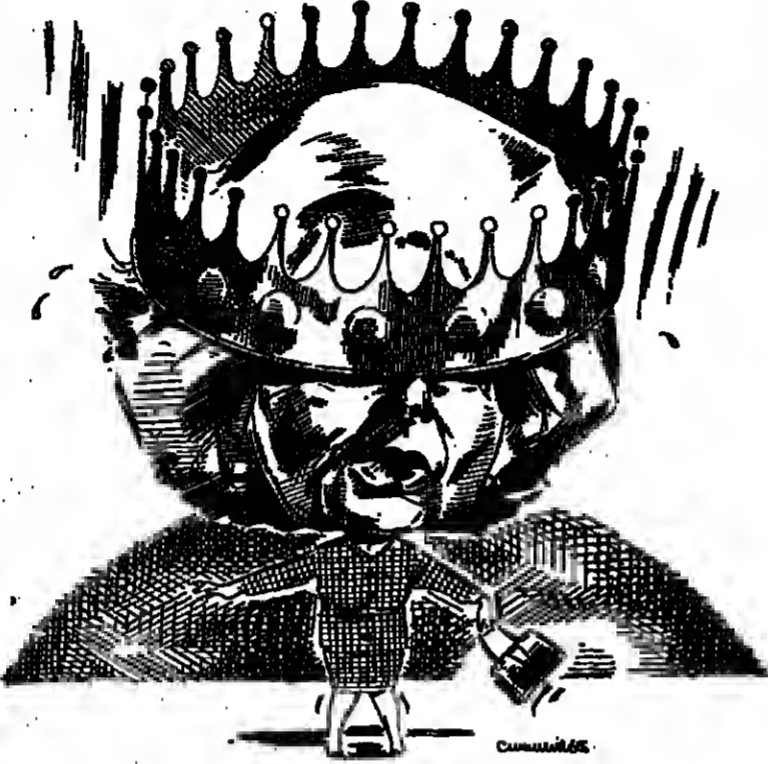
None of the above is sufficient to win him the next election. He has a lot more to do to stand a chance of that. He has a few more socialist clothes to shed and a number of social democratic garments to put on. It would be a miracle if the Labour Party were to gain sufficient seats in the south of England to put Mr Kinnoch in Downing Street next time. These things do not change all that

often, it seemed, could go on doing as Mrs Thatcher liked, perhaps until a new Great Exhibition is held to honour her as we move under her guidance into the 21st century.

I would not bet much on that. Under Mr Neil Kinnock the Labour Party has been doing its own sums. The remnants of the Alliance have fought one another into the dust. They are of no current political significance. The results of the recent spate of by-elections, plus the elections to the European Parliament, support my earlier hunch that Labour was likely to score well in the opinion polls. The Green Party must for the time being be regarded as of greater importance for its effect on the Tories and Labour than as a likely replacement for the Alliance as a schismatic force.

Thus Mrs Thatcher faces a newly-fledged Labour opposition. It is being re-shaped by Mr Kinnock into a standard European social democratic party, when it is that it will undoubtedly be a future British government, perhaps in the late 1990s. He has some way yet to go, as Mr Giles Radice, Labour MP for North Durham, points out in a new revisionist book, *Labour's Path to Power*, published this week by Macmillan. Yet the process is well advanced. It may by now be proof against even the accidents to which the Labour "movement" is so prone. Such an accident occurred on Tuesday, when the Transport and General Workers Union voted in favour of unilateral nuclear disarmament and against the Kinnochite multilateral fudge. It happened again yesterday, when the National Union of Railwaysmen voted similarly. The conventional wisdom is that this matters little since most other unions will vote multilateral at the party's annual conference in the autumn. Labour's proponents go one better and say, reasonably enough, that it will do Mr Kinnoch good to be seen to win a vote against the opposition of the TGWU and the far smaller NUR.

More fundamentally, there is a renewed desire for an end to the frenetic ideologically-driven activity of the past two years. This should be possible in the natural course of events. Water and electricity privatisation will soon be out of Parliament, although the latter will be put into effect in stages over the next few years. The poll tax could be eased in with a small bribe of a billion pounds or so. A compromise, or something that looks like it, might calm the legal profession.



much just because of a few summer upsets. Yet the Government has to take notice of a resurgent Opposition, and Mrs Thatcher is obliged to adapt to her own slightly less elevated status.

For example, some of her senior back-benchers are saying that although the Prime Minister remains an asset, she could come a cropper if she relies on the traditionalism to see her through. There is thus a call for what Mr John Biffen once called a "balanced ticket", which boiled down means bullying one's ministers rather less and allowing the pleasing ones to be seen to flourish on their own soil. Mr Kenneth Baker, who has been assiduously making his mark with the Tory Right, is one such minister. Mr Christopher Patten, if promoted to, say, Environment, could be another.

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they have little option. Since it will anyway take a couple of years to get many self-managed hospitals or general practices up and running there would be little lost and perhaps something gained if the enabling Bill contained phrases like "experimental" and "pilot schemes." We can assume that they are thinking about it.

These are small signs. The big question is whether there is a broader change in the Tory Government's sense of its own mission. On May 4 the Prime Minister was still self-assured enough to believe that her crusade to challenge everything in British life could be pursued indefinitely. Her power was enormous: she could not only revolutionise the home front, but start to re-shape parts of the world. She has since found the world less malleable than she may have thought. The Germans have the lead in matters of disarmament. The French and the Germans together have the lead in the European Community. The South African Government, as shown by yesterday's revelation of National party policy, remains wedded to a form of apartheid under new fancy names, in spite of her flirtation with its leaders.

None of this is likely to dent Mrs Thatcher's personal sense of what she is in No 10 Downing Street to do; that would be contrary to human nature. But it is part of her nature to allow politics to prevail: she gives in when there is no other choice. That is what happened in Madrid earlier this week. Her carefully-crafted tactics worked much better than her more customary tantrums. The important point is that they were the tactics of an ordinary politician. They have won an ordinary political reward, the (temporary?) renunciation of the Conservative Party around a generally acceptable policy for Europe.

The same approach may have assisted in persuading back-benchers that there will henceforth be a truce between the Prime Minister and her Chancellor, Mr Nigel Lawson, on the matter of sterling's membership of the European exchange rate mechanism. If there is, and if it lasts - two big ifs - it will be the result of a normalisation of the balance of power between Mrs Thatcher and Mr Lawson. For both understand that their fate and that of their party depends upon bringing inflation down.

There is now a third "if" after Europe and the economy - the environment. This now presents a political problem that requires a leader of extraordinary abilities to resolve. Its nub is this: the Green movement is basically anti-growth, on the grounds that growth is the main engine of destruction of the environment. The Labour and Conservative Parties exist to make their followers richer; they can only survive if they profess a belief in growth. The way out is "sustainable growth" which everyone finds easy to say, but nobody knows how to do. It means tailoring every economic activity - and the overall growth rate - to that which the environment can sustain without damage.

LOMBARD

The dream of Arab unity

By Andrew Gowers

WHEN an ageing Syrian Christian by the name of Michel Aflaq died last Friday in Paris, the contrasting Arab reactions provided a poignant commentary on the state of Middle Eastern politics.

From the 1940s to the early 1960s, Aflaq was the high priest of Arab nationalism. His quasi-mystical vision of Arab unity as a force for regenerating society inspired the political upheavals of the time in Syria and Iraq, and found expression throughout the region in the spread of his Baath (literally, "reawakening") party.

Yet from 1975 he lived in seclusion in Baghdad - little more than a mascot for the regime of President Saddam Hussein, to be wheeled out on party anniversaries but certainly not to voice any public opinions of his own.

His death was officially mourned only in Iraq, and was completely ignored in his native land. The Baath party itself long ago split into two rival wings in Baghdad and Damascus, both stripped of ideological content and transformed largely into vehicles for personal power. The bitter antagonism between them, and their governments' abysmal human rights records, make a mockery of the old Baathist slogan "unity, freedom, socialism."

Throughout the region, Arab regimes continue to month support for pan-Arab nationalism, while in reality pursuing narrow *raison d'Etat*. The cynicism of a populace confronted with such a gap between theory and practice cannot be overstated.

Nor is this the only unfulfilled dream of Arab politics in the last 40 years. Indeed, the demise of Aflaq prompts wider questions about the way Arab regimes have sought to legitimise themselves, especially the generation of leaders that came to power after the 1967 Arab-Israeli war and is largely still there.

In short, the devices and symbols which these regimes have manipulated in order to shore up their control these past two decades are all beginning to look like wasting assets. The prosperity of the 1970s,

which enabled Arab rulers to offer their rapidly growing populations jobs in government service and to build up formidable security forces, is wearing thin.

Without exception, Arab countries are finding that their bloated bureaucracies are an obstacle to investment and productivity. In some cases, such as the Maghreb states, Syria, Jordan and Egypt, severe economic dislocation has set in, confronting rulers with a potentially combustible mix of frustration and *enferme* among city-dwellers.

Then there is the question of Palestine. The quest for the recovery of at least a part of the Arab territory conquered by Israel has been a symbol of supreme importance for Arab regimes for 41 years. Their manifest failure to achieve progress towards this goal has long been a source of potential domestic discontent.

But in the last 13 months, they have found themselves pushed to the margins of the conflict by the Palestinian uprising in the occupied West Bank and Gaza Strip. Arab summit meetings these days present the bizarre spectacle of kings and presidents voicing support for a popular rebellion in Palestine of the sort which they have every reason to fear at home. The riots in Algeria last October and in Jordan in April, although sparked off by economic problems, also carried a powerful political message about the need for greater accountability and popular participation.

Democracy is another concept to which "progressive" Arab governments have paid ample lip service in the past 20 years, without the slightest intention of putting it into practice. What they, and Aflaq, apparently failed to understand is the link between liberation from foreign oppression and civil liberty at home.

If the Middle East is ever to emerge from its present malaise, Arab regimes will have to accept that the way to consolidate their systems lies not in the self-serving manipulation of ideological symbols but in an effort to build proper political institutions and win genuine popular support.

LETTERS

Dispute at British Rail

From Mr R.A. Rosser.
Sir, Just a few comments on the British Rail Board's expensive advertisement in the Financial Times yesterday (June 29).
Last time we referred an issue to the chairman of the Railway Staff National Tribunal, the Board hastily retracted its offer over nine months, and then only after the intervention of the Advisory, Conciliation and Arbitration Service (Acas).
When a decision was given in our favour, the Board refused to abide by it. So much for its respect for the Tribunal and its independent chairman.

The British Rail Board wants to abolish the Tribunal from the end of October this year. After then it wants to have the right to veto any trade union claim being referred to arbitration. Once again, so much for its new-found respect for the Tribunal and its chairman.
The British Board imposed its "final" pay offer knowing that we had referred our claim to the Railway Staff National Tribunal.
Clearly, at that time, just over seven weeks ago, it did not regard the Tribunal as the appropriate body for settling differences.
The board's final pay offer of 7 per cent to staff throughout

the industry is below the rate of inflation. In contrast, when it comes to face the RRB Board, has no compunction about consistently imposing increases for its customers which are well above the rate of inflation. Both customers and staff get an unfair deal from the board.
Finally, Acas has not instructed the National Union of Railwaymen nor any other union to refer its claims to the Tribunal, as the Board alleges in its advertisement.
Richard Rosser, General Secretary, Transport General Staff's Association, Walkden House, 10 Melton Street, NW1

Report with reservations

From Mr Rhys David.
Sir, Andrew Hill has been generous in quoting Business magazine in his reports (June 24 and June 26) on the Department of Trade and Industry investigation into the affairs of Bestwood plc - but I fear not a little unfair.
It is completely inaccurate to say, as he says no fewer than three times, that Bestwood was tipped by Business in March 1988 as likely to be the top British company in the year 2000. Bestwood appeared at the head of the Business "Smart 200" list in our April 1988 issue by virtue of its spectacular sales growth (122.5 per cent) over the previous three years.
A short accompanying article was headlined, however, "Bestwood: A Paper Tiger". The text was equally reserved in its analysis of the company, pointing out that Bestwood's most potent expansionary tool, its strategy of "buying out" and drawing attention to the disappointment among investors and brokers at its most recent interim results. "Bestwood," Business concluded, "is everything that went out of fashion on October 19, 1987"; moreover, it was now "in a vulnerable position."
Far from getting it spectacularly wrong, as Andrew Hill implies, we seem to have been among the more prescient in commenting on the company's affairs.
Rhys David, Publisher, Business, 24 King's Road, SW3

Measured out in money

From Mr L.R. Bloor.
Sir, Mr Samuel Brittan quotes admirably the words of Professor McKinnon to the effect that all the benefits of a common monetary standard can be secured with national moneys remaining in circulation (June 15). This is surely meaningless.
Under a monetary union, whether the classic gold standard or some other standard, it is the object chosen for the standard that becomes money, not the units which simply express given quantities of it. (A given quantity of liquid may be expressed in either grams or litres, and as long as the relationship between the two measurements remains the same it does not matter in real

terms which is used, because the actual quantity of liquid being considered is the same.)
Similarly, in a monetary union with absolutely fixed exchange rates it is the quantity of money which matters, not the means by which it is measured.
This must surely imply entrusting the money supply to some central authority of the union - unless a control system like that of the classic gold standard were to be adopted which solely depended upon the fluctuating supply of this metal.
As readers with some knowledge of economic history will be aware, a country which lost gold under this system for whatever reason, current or

capital, suffered a loss of money which, because of the absolutely fixed relationship of the currency unit to a given weight of gold, automatically brought about a deflationary effect.
The room for individual manoeuvre by national monetary authorities in any monetary union is extremely limited because of the *de facto* existence of a single form of money. To retain individual national currency units in a monetary union would be at best eccentric - in fact dishonest, because it would encourage a false illusion of continuing monetary sovereignty.
L.R. Bloor, 1 Brickfields, Wicksforth, Derbyshire.

Not such a heavenly City

From the Rector of St Mary-le-Bow.
Sir, Colin Amery's article attacking the Environment Secretary's decision to let Mr Palumbo demolish the Hatfield buildings at No 1 Poultry (June 12) prompts two questions:
1. Whatever happened to the City Plan?
2. The appeal inspector's report, representations in support of the proposals are listed on page 51. Representations from those against cover pages 52-112. How can such a weight of evidence be ignored?
Victor Stock, St Mary-Le-Bow Church, Cheapside, EC2V 6AU.

Compensation claims liquidated

From Mr Henry Witcomb.
Sir, Robert Bloor's legal column (June 26) highlighted the plight of compensation claimants who may be left without a claim if their former employer has gone into liquidation.
We welcome the Government's move, in the Companies Bill, to extend the re-registration of companies from two to 20 years. This will undoubtedly help many future claimants. Crucially, however, this right is not retrospective.
Mr Francis Manda, the Minister for Corporate Affairs, stated in committee last week that retrospective would place a huge burden on insurers, because they have discounted their premiums or liability to

companies in the knowledge that a number of claims would probably be lost if the insured company became bankrupt and dissolved, therefore enabling them to escape liability.
But the Minister failed to answer the argument raised by the Bar's law reform committee report, which says, "essentially, it is a windfall if insurers avoid liability for this particular... category of claimants."
The author of the Bar's report, argued that, prior to the House of Lords' decision in *Bradley v Royal Star Insurance Co Ltd*, in March 1988, the law was uncertain, and it was "most unlikely that any insurer would have relied in any meaningful

sense" on that decision as it was decided, and discounted its liability accordingly.
So who is right? The Minister suggested that it was up to those proposing retrospective to show that it should be introduced. By doing so he appears to be reflecting without question the insurance lobby's claims. But where is the evidence that its claims have any basis?
If the insurance industry really has been discounting its liability in the past, it should produce that evidence. If not, it is an act of particular callousness for it to be denying access to justice to injured people.
Henry Witcomb, 3 Epsleigh Street, WC1

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FINANCIAL TIMES

Friday June 30 1989

MORGAN GRENFELL UNIT TRUSTS

Three take a bite at the Big Bad Apple

Janet Bush looks at runners and form in the race to become next Mayor of New York

THE RACE to become Mayor of New York, surely a most unenviable job is being competitive for many years and promises a fascinating result, whoever wins.

There are two front-runners and a celebrated underdog for the November election. It is a campaign that will decide who will steer this city - slouching towards despair - and badly in need of leadership, in the words of Mr Joe Klein, one of its most astute political columnists - for the next four years.

The leading contender for the Democratic primary by a very large margin over an embattled Mr Ed Koch, mayor since 1977, is Mr David Dinkins. The underdog, gentle Manhattan Borough president is not the first black contender for mayor but certainly the first with a good chance of winning.

Mr Dinkins, a respected politician, has solid backing from the highly politicised black community and broad support from trade unions, white liberals and many local political leaders.

The candidacy of Mr Rudolph Giuliani, former US Attorney for the Southern District of New York, has revived the most bitter contention between the Republican and Liberal parties which elected two legendary mayors: Fiorello H. La Guardia from the mid-1930s to the mid-1940s and John Lindsay in the 1960s.

Mr Giuliani has built up his formidable reputation as scourge of the Mafia, Wall Street's insider traders and corrupt public officials in the scandal-ridden Koch administration.

He is proving to have enormous appeal among black and political barriers because of his strong law and order image, in a city which is imploding under the pressure of drug, particularly "crack," induced violence.

An opinion poll carried out for the New York Post last weekend shows that the former



Sights on the skyline: in the running for the unenviable position of Mayor of New York are the scourge of Mafia and Wall Street insider traders, Rudolph Giuliani (left), the incumbent Mighty Mouth, Ed Koch (centre), and the understated Borough of Manhattan president, David Dinkins.



prosecutor, who runs in both liberal and Republican primaries on September 12, would beat Mr Dinkins by 10 points and Mayor Koch by two votes to one in the November 7 election.

He would be the first Republican victor in this overwhelmingly Democratic city since John Lindsay won in 1965.

But what of Ed Koch who boasts nicknames like Mayatollah and Mighty Mouth?

His popularity ratings have plummeted since the heyday of his first term, but he is credited with dragging the city back from the brink of bankruptcy in the mid-1970s. Yet nobody is prepared to exclude the possibility of him winning an unprecedented fourth term.

Ed Koch has in Ed Koch the most formidable candidate that

I have seen for years and years and anyone who has counted him out because of a few opinion polls is making a big mistake," says Mr Howard Rubenstein, whose public relations firm has worked for many a New York politician.

Mayor Koch has enviable political savvy and a host of favours to call in. But there is no doubt that the vast majority of New Yorkers are tired of him. Although his love for the city is undoubted, his heated wit and boundless optimism no longer seem an appropriate response to the appalling problem of homelessness, drug gang warfare and racial division.

Mr Koch still leads the other two Democratic contenders, who are not given much of a chance of winning. They are

Mr Richard Ravitch, former head of the Metropolitan Transportation Authority, and Mr Harrison Goldin, New York Comptroller and a long-time foe of Mr Koch.

Mr Giuliani's Liberal challenger is Mr Donald Harrington, a veteran who stands no chance of winning without the party's endorsement, already given to the former US attorney.

Mr Giuliani's opponent on the Republican ticket, although expected to beat him, could be more troublesome. He is Mr Ronald Lander, heir to the Essee Lander fortune, and he has waged a campaign almost entirely through a negative advertising blitz attacking Mr Giuliani.

He has already spent \$5m and is apparently prepared to

spend \$5m more. "Mr Lander's campaign is like a laboratory experiment to see if a candidate with no brain can still win because he has an enormous wallet," said one political commentator.

New York magazine's Joe Klein believes Mr Koch will lose. Koch alienated black and white voters during the New York Democratic primary for the presidential nomination last autumn with his comment that people would be crazy to vote for the Reverend Jesse Jackson. He is also widely seen as presiding over a city which is falling apart.

New York has deteriorated even since the fiscal crisis of the mid-1970s. Mr Klein says: "The fear then was the specific fear of financial chaos. Now we have a more amorphous kind of fear and it is much more frightening. It is like Beirut - creeping anarchy."

The expected confrontation between Mr Dinkins and Mr Giuliani will rest on two factors, in his opinion.

The first is whether Mr Dinkins, who already faces a considerable hurdle with a section of voters because he is black, would be severely disadvantaged if a tough summer of racial incidents emerged. "All you need is one more white policeman killing a black kid."

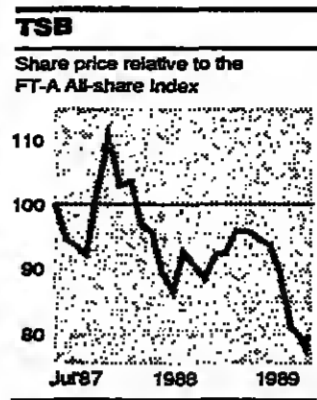
The second is whether Mr Giuliani proves tough enough to take the blows that have started raining down on him as the man to beat. He has already had to take a leave of absence from his law partnership because of his involvement in Panama's General Manuel Noriega, indicted in the US for drug trafficking, as a client.

Mr Giuliani, who has a stern, almost sepulchral visage, must also prove that he is human. He has tried to do this by doing a possible imitation of Marlon Brando in The Godfather, but it may be the birth of his second baby in August, and the inevitable blanket press coverage of his paternal cooking, which could tip the balance in his favour.

THE LEX COLUMN

A fresh lead from the Bundesbank

The UK authorities could learn a thing or two from West Germany when it comes to interest rate tactics. Like the UK, the West Germans bungled their last increase in interest rates and their currency suffered. This time, they have raised rates at a time when their currency was not under attack and inflation had dipped below 3 per cent. The increase was timed to cause least political damage - coming after the Euro elections but well before next month's Paris economic summit - and has enabled the Bundesbank to regain the initiative.



cent increase in profits last year was scarcely the stuff of outperformance; and the company itself spent the day issuing warnings that earnings may stagnate or even fall over the next two years.

But the market took on board the worst of the news about BPB quite some time ago. The shares have underperformed the market by 32 per cent over the past year, with the price falling to a point where the prospective yield on the shares was nearly as high as its p/e was low, at round about 7.

At some level - perhaps not far from the current one - BPB's share price performance must start attracting interest outside the circle of its own investors. Predators might focus on the growth of BPB's market - 6 or 7 per cent this year in the UK, and a few points more than that in Europe - and the low cost of its production base, once the current capital expenditure programme has finished. But unless they do, the continuing threat of serious competition in the home market from Redland and Knauf could keep BPB on the list of underperformers.

Elders IXL

It is not every day that a company under no threat of takeover urges its shareholders not to sell their shares. But they do things differently in Australia, and none more so than Elders. The complex plan for the company to tidy up its share register has been heavily criticised, and no wonder. If shareholders were to balk at the proposed offer of shares at well over the market price, Mr Elliot and his colleagues - who have underwritten the offer - could come very close to controlling the company without having bid for it.

The key question about yesterday's announcement is the nature of the promised "material information" which is to justify the offer price of A\$3.00. It could be a number of things: details of the promised flotation of the brewing business, in the UK or worldwide; a resolution of the brewing merger in Canada; or - perhaps most intriguingly - sale of all or part of Elders's 24 per cent stake in Scottish & Newcastle.

The last would be a bold move, given the chaotic uncertainty gripping UK brewing ahead of the final ruling from Lord Young. But on the other hand, it would be wholly in character.

Salomon

In the battle for pre-eminence among continental European capital markets, Italy is scarcely in the running; so it may seem odd for Salomon to choose an Italian partner as a vehicle for its European ambitions. San Paolo itself is a respected institution whose stakes in Hambros and Suez give it an international perspective. But the Italian market is, as Mr Gurfund delicately puts it, "underdeveloped," and it must present more limited opportunities for Salomon than, say, the French market would have done. In a world where some of Salomon's major Wall Street rivals have much more powerful backing from the Japanese, a 5 per cent commitment from Italy must look pale by comparison.

BPB

BPB might not have seemed the obvious stock to rise 3 per cent on a day when the market fell 27 points. Yesterday's announcement of an 11 per

cent increase in profits last year was scarcely the stuff of outperformance; and the company itself spent the day issuing warnings that earnings may stagnate or even fall over the next two years. But the market took on board the worst of the news about BPB quite some time ago. The shares have underperformed the market by 32 per cent over the past year, with the price falling to a point where the prospective yield on the shares was nearly as high as its p/e was low, at round about 7. At some level - perhaps not far from the current one - BPB's share price performance must start attracting interest outside the circle of its own investors. Predators might focus on the growth of BPB's market - 6 or 7 per cent this year in the UK, and a few points more than that in Europe - and the low cost of its production base, once the current capital expenditure programme has finished. But unless they do, the continuing threat of serious competition in the home market from Redland and Knauf could keep BPB on the list of underperformers.

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De Klerk launches election campaign

By Anthony Robinson in Johannesburg

VOTERS in South Africa should take the opportunity "to break out of the cycle of conflict," said Mr F W de Klerk last night as he acted to consolidate his authority as leader of South Africa's ruling National Party with the launch of its general election campaign.

Addressing the party's one-day Federal Congress in Pretoria City Hall, Mr de Klerk told cheering MPs and senior party officials to promise a hope is shining through the dark clouds of violence and strife. "History is offering us a golden opportunity at the beginning of the last decade of this century."

He pointed to the election process in Namibia, the prospects of reconciliation and negotiation in Angola and Mozambique and the way "economic realities are forcing the countries of southern Africa to take a new look at closer co-operation."

Inside South Africa, he continued, "I have been heartened by a wide range of discussions with various leaders." He added: "After my talks with European leaders, my impression is that the changing atmosphere is causing them to cautiously re-evaluate the situation in South and southern Africa."

After his upbeat analysis of the international situation Mr de Klerk went on to promise a tough battle against both the "unrealistic policies" of the Conservative Party and a newly-formed Democratic Party whose "policies of one man, one vote on common rolls," he would "inevitably lead to majority rule and thus the domination of minorities."

Mr de Klerk's own party's "five year action plan" for modified ethnic group-based power sharing stems from what he termed "a system of

concurrent majorities" and rejection of Westminster-style simple majority rule. He later indicated that it might take more than five years before blacks gained similar voting rights to other races.

Mr de Klerk made clear that President P W Botha, who did not attend yesterday's congress, would not be taking an active part in the election campaign. He said homeguards would remain key building blocks in the constitutional framework and that he "did not want to be tied down to a timetable on black voting rights." He added: "It may take longer than the next election."

Despite these clear indications that Mr de Klerk's promise of a "new South Africa" is likely to be a long time in the making, he also made clear the party was now united around a generally "reformist" line. The National Party will attack the Conservative Party

for its "negative and unrealistic policies" rather than compete in bigotry. In particular he indicated that the party would demand that the CP reveal the boundaries of its proposed white state. The Conservative Party, led by Dr Andries Treurnicht, has, up to now, kept its plans deliberately vague so as not to deter white voters in areas which might be handed off to blacks.

Meanwhile the ruling party's five-year "action plan" dismissed by Dr Denis Worrall of the Democratic Party as "a plan to entrench apartheid." The Coloured Labour Party termed it unacceptable for perpetuating the artificial formation of groups on a racial basis.

The Conservative Party denounced it as making black majority rule inevitable and making whites prisoners of a constitutional system they were unable to change.

Uno battles against his image as a womaniser

By Ian Rodger in Tokyo

JAPAN'S Prime Minister Souseike Uno met groups of religious leaders and women executives yesterday in a bid to overcome his recently acquired image as a womaniser. However, widespread criticism of Mr Uno's erratic behaviour earlier this week persisted.

Mr Masajuro Shikawa, the chief cabinet secretary, said Mr Uno's expression on Tuesday night of a desire to resign was "the result of too much alcohol and was merely a complaint."

The Prime Minister appeared relaxed at the meetings, perhaps because rumours that a weekly news magazine was to publish fresh accusations that he had had an affair with a 16-year-old trainee geisha proved to be unfounded.

The magazine Focus appeared this morning with nothing more shocking than a picture of Mr Uno and a report that it had been unable to substantiate the story of the 16-year-old. The editors had been surprised by the flood of inquiries on the matter on Tuesday evening, including one from the Prime Minister's office.

Most of the large farmers in Japan's ruling Liberal Democratic Party (LDP) held meetings on Wednesday and agreed that Mr Uno should be persuaded to remain as Prime Minister at least until after the economic summit in Paris in mid July and the elections for half the seats in the upper house of the Diet on July 23. This decision was seen as reflecting more the difficulty of finding a replacement than of demonstrating any confidence in the Prime Minister.

It may prove difficult for Mr Uno to stay in power even that long if the LDP fares badly, as expected, in elections for the Tokyo metropolitan assembly on Sunday.

The chairman of the Japan Socialist Party, the largest opposition group, announced the party was aiming to reduce by more than half the number of LDP seats in the upper house elections, thus ending the ruling party's majority.

Mr Tsuruo Yamaguchi said the party would then submit a bill to repeal the unpopular consumption tax introduced on April 1 and which is largely responsible for the LDP's unpopularity. It would then propose increases in capital gains taxes on share and property transactions to offset the loss in revenue. Bulling party leaders running scared, Page 5

OECD forecasts 'big industrial slowdown'

Continued from Page 1

age rate of 6 to 7 per cent in 1989-90. This would be slightly higher than the level recorded between 1983 and 1987.

The OECD says that both the British and US economies would be expanding at rates below their medium-term potential over the next 18 months. It forecasts a slowdown in US growth to 2.25 per cent next year from 3 per cent in 1989.

Such slower growth should help to damp inflationary pressures. However, in Britain's case, the OECD warns of the dangers of a wage-price spiral.

Its forecasts suggest that individual pay packets in Britain will grow by 8.25 per cent this year and by 8.5 per cent in 1990. This would be faster than in the other G7 nations.

At a press conference in Paris, Mr David Henderson, the head of the OECD's economics and statistics department said the British Government would have an easier task reducing inflation if public opinion were on its side.

In its Economic Outlook, the OECD says the recent pick-up in UK inflation and the deterioration in the current account balance of payments showed the need for improvements in the supply side of the British economy.

It calls for the removal of rigidities from the labour market, improved employment training and education, greater competition in professional services, enhanced regional mobility of labour and capital and more neutral tax treatment of household saving.

Thatcher rejects Delors plan for economic unity

Continued from Page 1

acceptable to the House of Commons or to a number of other European parliaments. Britain had "won the day" at Madrid, said Mrs Thatcher, adding that no definition had been agreed of what was meant by economic and monetary union. The Government would present its own proposals to the Intergovernmental Conference, which France, Italy and West Germany are expected to call next year. The Treasury will now start work on an alternative plan, but Mrs Thatcher provided a clear preview of the loose system of enhanced policy co-ordination that Britain will be looking for.

Apart from the issue of national sovereignty over fiscal policies, she questioned the desirability of a single European central bank system and

common currency and stressed the need for voluntary rather than legislated policy co-ordination.

Quoting from a recent speech by Mr Karl Otto Pöhl, president of the West German Bundesbank, Mrs Thatcher said there were other ways, apart from that proposed by Mr Delors "of going progressively towards a definition of economic and monetary union by consistently following similar policies but without central direction."

Her comments on the EMS emphasised the significant slack in the system that the lifting of exchange controls by other EC governments might bring. She also stressed that eventual British membership would depend on other governments

Italian stake in Salomon

Continued from Page 1

buying a stake, but this was necessary to strengthen its position in Europe, a market which was "very exciting but rather complex."

"This alliance will allow us to combine complementary strengths in distribution, product creation, technology and dealing capabilities," he said. For San Paolo, the deal marks a further stage in its strategy of forming alliances with foreign financial institutions in order to extend the range of its services and its geographical reach. It already

has stakes in Hambros, the UK merchant bank, and Compagnie Financiere de Suez of France.

Mr Gianni Zandano, San Paolo's president, said that San Paolo and Salomon had spent two years discussing the alliance in a succession of meetings in New York, Venice and Turin.

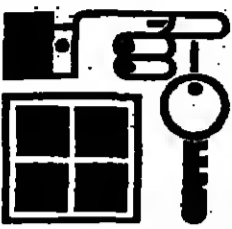
"We got to know each other well and we regard it as an honour that Salomon has chosen us as the basis for opening its European strategy," he said.

WORLD WEATHER

Table with columns for location, temperature, and weather conditions. Includes locations like London, New York, Tokyo, etc.

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FINANCIAL TIMES SURVEY



While the demand for office property in the City of London appears to be slowing down, the picture is slightly different beyond the Square Mile in the West End.

Manchester, Leeds, Birmingham, Bristol and Glasgow are also areas to watch. William Cochrane reports.

The broker's day is over

IS THE OFFICE property boom on shaky ground? Are developers too ambitious, and bankers too easy with other people's money? Have overseas investors been beguiled by a temporary upswing in UK economic respectability and are the agents, marketing new office space for profit, selling pipe-dreams rather than the facts?

In the year to September 30, 1988, office rents grew by an average of 30 per cent, according to Mrs Honor Chapman, head of research at Jones Lang Wootton. In the year to April 1989 office rental value growth had subsided to 25.3 per cent, according to figures from the Investment Property Databank, and the monthly rate was down to 1 per cent.

Averages like that leave plenty of room for extremes. Mr David Fletcher, chairman and chief executive at Fletcher King, notes in the firm's new Investment Report 1989 that, while the much predicted "City property crash" did not take place last year, the City of London office market showed a marked slowdown in rental growth.

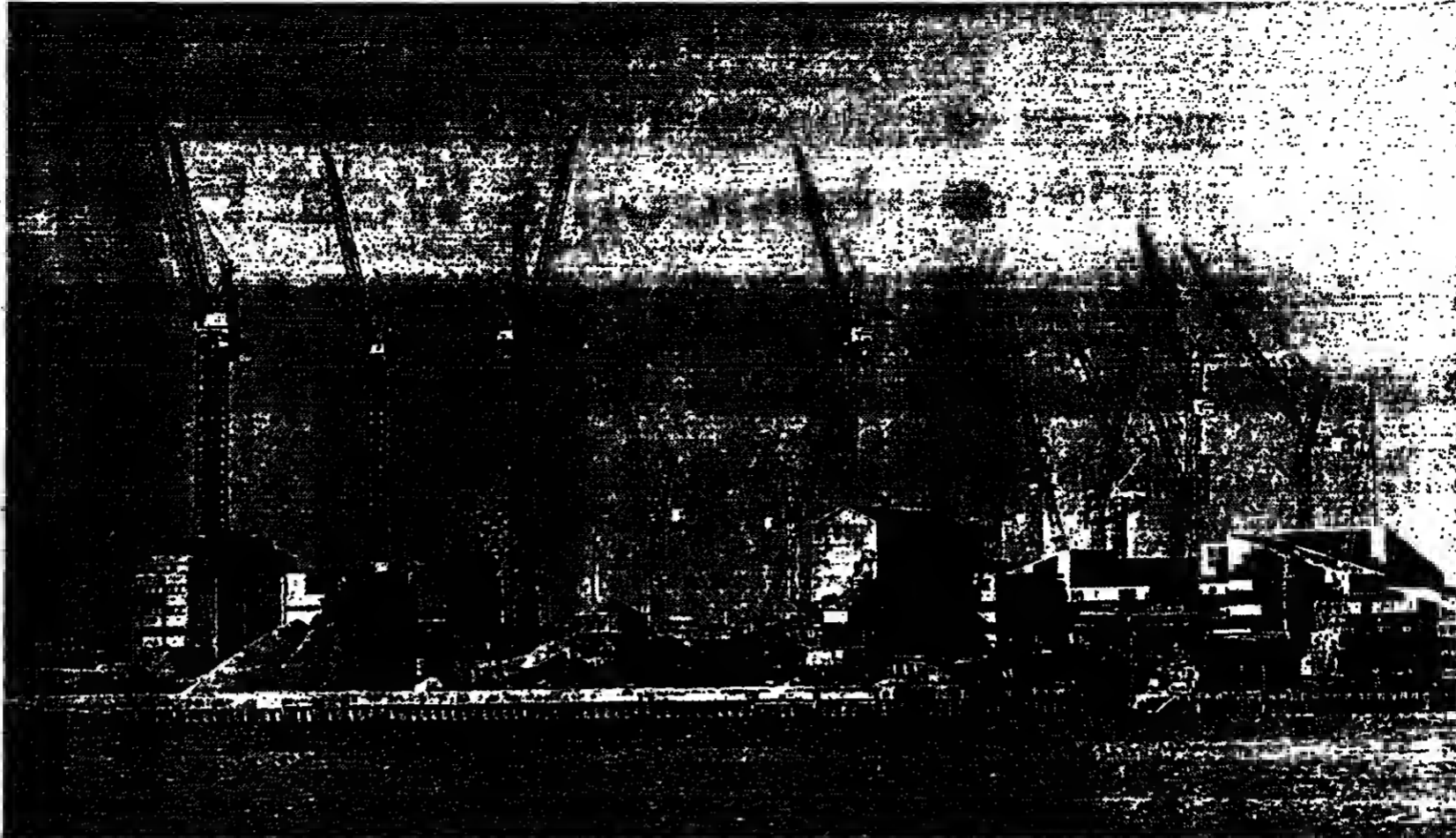
While he is sanguine about prospects elsewhere, Mr Fletcher is quite bullish on the City fringe, and on London's Docklands, where much con-

struction recently has centred on perceived problems into and out of the Isle of Dogs, by road, rail or underground. "There is extensive construction taking place and supply will undoubtedly far outstrip demand," he says, "with rents likely to plateau at best, but more than likely fall."

On development, he says that the biggest mistake any foreign investor can make is to judge a new market abroad on the criteria he adopts at home. "I fear that this is what Olympus & York may have done at Canary Wharf," he says.

The Canadian developers, who have taken over in one of Docklands' most ambitious schemes, may well be able to "buy" North American tenants, he says. O&Y demonstrated this ability in Manhattan, and it has succeeded in convincing Merrill Lynch, the US investment bankers, to move to Canary Wharf from Ropemaker Place on the City's northern fringe. "But it is unlikely," says Mr Fletcher, "that this will happen with domestic occupiers."

Mr Christopher Walls and Mr Alastair MacDonald, property analysts at Kleinwort Benson Research, estimate that the vacancy rate in the City of London will be 11 per cent by



Picture by Glyn Coates

OFFICE PROPERTY

the end of 1989, reaching nearly 14 per cent in 1990 - "levels which were not seen even in the aftermath of the stock market and property market collapse in 1974." They believe that rents will decline, with most pressure falling on second-hand space, as a two-tier market develops.

Mr David Price, the partner in charge of Hillier Parker's City office, takes issue with them. "Demand has held up well," he says, "despite gloomy reports that the City is awash... The fact remains that in the whole of Central London there are only five schemes which can provide buildings in excess of 200,000 sq ft for occupation within the next 12 months." He says that there are at least twice that number of occupiers actively in the market, or planning moves within that timescale.

Mr Price acknowledges that the comparison would be less comforting if the buildings were those of 100,000 sq ft and above; but he contends that if London is to be Europe's finan-

cial centre after 1992 it will have to upgrade the scale and quality of its buildings, whatever the level of domestic demand.

He does think that the vacancy rate of second-hand stock in London will increase consistently, but that "this would be consistent with a healthy market in which old space will be redeveloped if it does not measure up to occupiers' requirements." "Manhattan," he estimates, "has a 15 per cent vacancy rate."

The story is different, apparently, outside the City. In London's West End, supply and demand have been distorted by the prospect of 500,000 sq ft of Mayfair reverting to residential use over the next few years. In March Ladbrokes's development arm claimed a record £80 a sq ft rent for a West End office building; this month it said it had made a new record: £78.80 a foot for three floors in a new 18,000 sq ft building at the corner of Portland Place and Chandos Street.

Mr David Fletcher expects

good growth rates in the "Western Corridor" and the "Golden Triangle" to the west and north-west of London, but the really good performances will come from major regional centres - "such as Manchester, Leeds, Birmingham, Bristol and Glasgow where rents have been at comparatively low levels during the last 2-3 years."

Regional centres are swamped by excess demand, rather than supply, but there is enough in the development pipeline to forecast a slowing of capital growth in the early 1990s. Indeed, some of the developments, which must have been encouraged by the readiness of bankers to put up loan capital for schemes, are big enough to excite concern.

In Birmingham, £100m proposals by Speyhawk and British Rail aim to put 900,000 sq ft of space on to a car park next to Snow Hill station. This will represent 8 per cent of the city's entire stock.

In Leeds, Mountleigh's plans for 500,000 sq ft on the old Fair-

bank Lawson works, Town Centre Securities' 300,000 sq ft on the Eliza Gibbs site, were dwarfed by the Canadian-Iranian Triple 5 which bid for some 3m sq ft of office space in a mixed development south of the city centre.

Sentiment can change rapidly in this business. In Leeds, Triple 5 were discouraged, officially, in the City, Conrad Rith's offices partner, Richard Chaplin, declared in January: "Dealing floors, regularly 'flavour of the month' only a couple of years ago, are now virtually obsolete. In the months ahead, as the City rationalises its trading operations still further, more and more space of this nature will become available."

It happens that we heard subsequently of the former Billingsgate fish market, a handsome building refurbished by architect Mr Richard Rodgers and intended for a dealing operation floor by Citicorp; that plan had been put on ice and Billingsgate had graduated into a "letsure" proposition.

There has been concern, too, about the bankers. "The general availability of debt finance for real estate opportunities in the UK, from both existing and new sources, has increased dramatically over the last 18 months, particularly in respect of projects with a total senior debt requirement of up to £10m," says Mr Peter Welborn, a partner of Knight Frank & Rutley.

Mr Welborn, responsible for financial services at KFR, notes also that building societies have emerged as a growing force in the commercial property market. In direct competition with the established providers of debt, "Loan to value ratios are continuing to move close to 100 per cent," he says, "and deficit financing has once again returned to the commercial property market."

The plethora of funding methods developed since insurance companies and pension funds were found wanting, and unwilling to provide equity for developments in the early 1980s, speak well for the

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Forest of cranes signals the extensive construction work in Docklands: a danger that supply may outstrip demand

Increasing financial maturity of the property developer and chartered surveyor

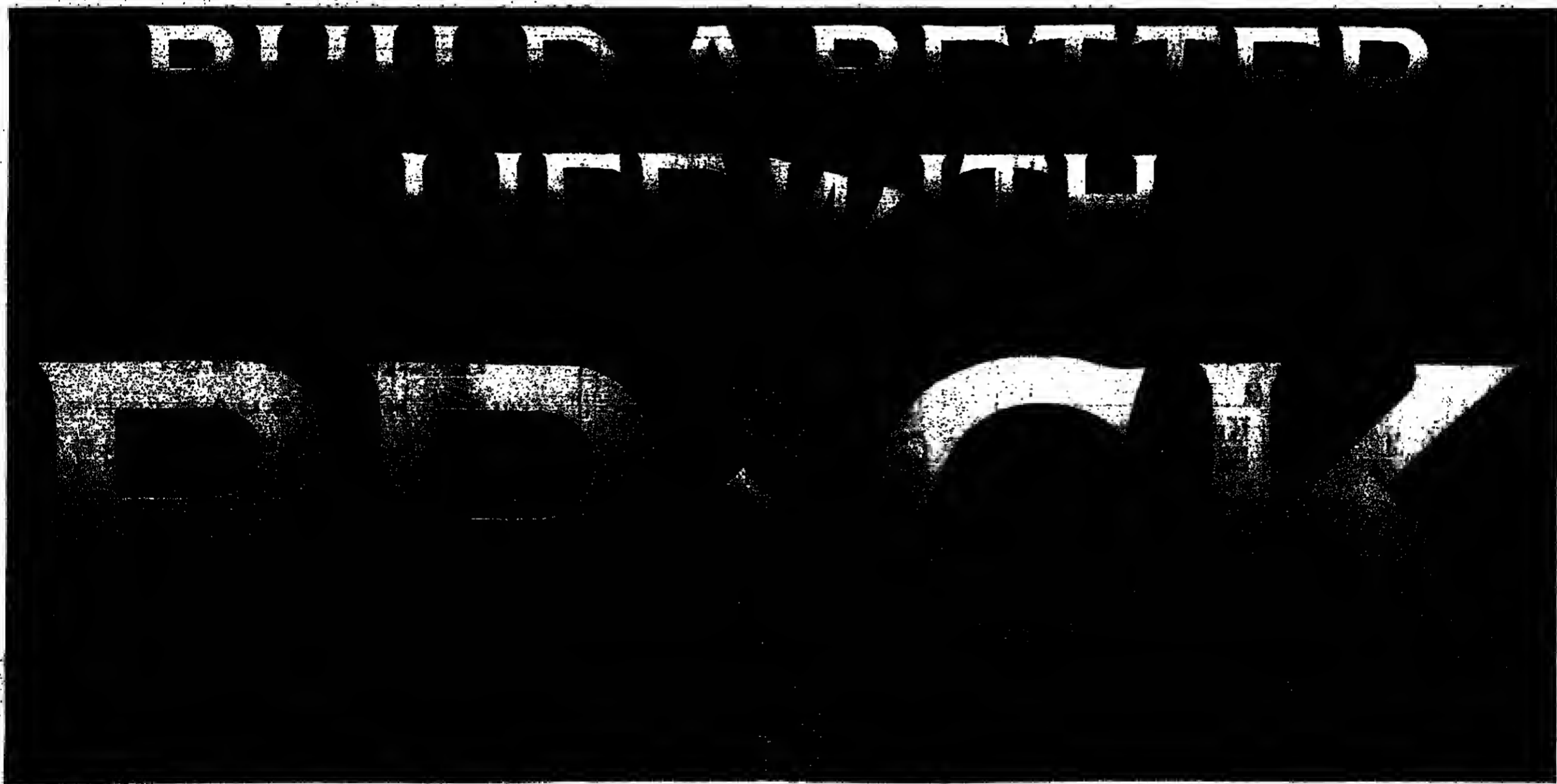
But there is serious concern about the characteristics of so-called limited recourse loans; about how well the providers of 100 per cent debt/equity funding packages really know the market they are getting into; about high interest rates and their effect on development economics.

What are the overseas investors to make of this? Frequently, they are the people putting the equity into the funding equation; the proponents of development say that Japanese, and the Scandinavians have their own particular reasons for moving into UK property - mainly, the lack of investment and development opportunities in their home markets - and that they will not be put off by a declining pound.

Are the agents just too confident? "That might be true if we just had buildings to let," says Mr David Price of Hillier Parker, "but we advise developers and investors as well."

"Put it this way," he says, "if we were just selling second-hand cars, we might have to say that they were all 'good little runners'. But if we're advising the car manufacturer to invest in plant, then it's a different story. We bid for the Bishopsgate goods yard (close to Rosehaugh Stanhope's Broadgate development on the City's North-eastern fringe) as recently as February. We won it for 1.2m sq ft of new space if the planners will let us."

"Along with the Jones Langs and the Richard Ellises, we don't want to do one big deal and retire to a rectory in Norfolk; we want to be here in 30 years' time. In any case," he observes, "the market is softer than it used to be. The day of the broker is over."



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For further details on the Brick Development Association contact Bob Lloyd-Jones at The Brick Development Association, Woodside House, Windfold, Windbox, Berkshire SL4 2DX. Telephone: (0344) 885651.

OFFICE PROPERTY 2

William Cochrane looks at financing methods

Funding gap widens

NATURE, they say, abhors a vacuum; it must be despairing of the City of London office development market which has been trying to bridge a funding gap since the early 1980s. In recent years, the chasm has yawned wider and wider.

Before the City's office development boom took off in mid-decade, developers had difficulty obtaining institutional funding for schemes costing more than, say, £20m. Afterwards, the funds were diverted by better short-term prospects in the stock market.

Unitisation, bringing single properties or groups into multiple ownership, was promoted as a solution to the problem, and the redevelopment alongside Billingsgate fish market on the south-east fringe of the City was sold to groups of investors in this way, following that, unitisation as an investment medium seems to have been developing very slowly.

Meanwhile, a nationwide development boom took over from the Central London initiative, conventional forms of funding were modified, and other sources appeared. Stephen Barter, a partner in agents Richard Ellis and a director of Savills Financial Services (REFS), lists them in his introduction to a recent book on real estate finance:

- Limited recourse lending, a ploy imported from the US, in which the recourse of the bank is limited to the project itself, thereby restricting the potential liability and risk to the borrower. Savills Financial Services, in a recent publication, Financing Property 1989, says that limited recourse loans are often tied in with off-balance sheet financing.
- This type of arrangement is designed to help the developer whose capital base is small in relation to the amount of development which it is undertaking. The most celebrated example of this, recently, has been the financing deal put together by Kleinwort Benson for Speyhawk, in a £55m funding of the latter's 190,000 sq ft King's Cross House scheme on the northern fringe of Central London.
- Mr Barter's list continues with: The joint venture revival: ● Here, the developer takes a partner which could be an institution, a property company or an international investor to provide most of the equity finance, in return for a share of the profits; the joint venture vehicle will raise the required debt.

Debt Finance:

UK banks were scarred by Third World debt, and aware that the margins on property lending were significantly greater than for mainstream corporate lending. They con-

tributed to a £2.2bn rise to £23.6bn in loans to property companies in the three months to end-February. This figure also included:

- Overseas banks, a growing number of them with branches in London eager to participate in, or lead syndicates;
- Building societies which, as a result of the Building Societies Act 1986, can lend up to 10 per cent of their loan portfolio into non-residential opportunities. Abbey National was the first major lender from this sector, providing a £40m facility to Lysander for the Bishopbridge mixed-use development at Paddington, west of central London.



Stephen Barter

New funding vehicles:

- Agents like Jones Lang Wootton and Knight Frank & Rutley have links with building societies, the Alliance & Leicester and the Woolwich respectively. REFS is involved with Barclays de Zoete Wedd in the Property Equity Fund, which aims to provide 100 per cent finance for developments from a single source; and, in another venture, in a partnership with the Bayerische Hypo-bank.

The capital markets:

- Financial products in this category include multiple option facilities, tender panel loans, Eurobond issues and commercial paper programmed for property companies; and Rossmore/Cyprus's financing of 1 Finsbury Avenue.

Securitisation:

- Takes in unitisation and means the conversion of assets into tradable paper securities. REFS is identified with the PINCO, one of the vehicles created for this purpose, and Mr Barter thinks that we are going to see some financing schemes, structured around PINCOs but on a private basis, as an efficient joint venture partnership. These, he says, would be followed by public PINCO issues.

Problems remain. A number for observers think that the problem of replacing medium-term debt with equity will have to be faced. They say that so-called limited-recourse loans are typically designed to cover the construction period, and up until the first rent review.

Peter Welborn, a partner of agents Knight Frank & Rutley responsible for its financial services arm, is not 100 per cent sure about the trend to debt/equity funding packages. "The number of providers of 100 per cent of development finance, particularly for commercial projects, in return for an element of participation in project profit, have grown substantially," says Mr Welborn. "Margins have been squeezed and in some cases there is a question as to whether the risk/reward equation has been fully addressed."

Savills picks up on the high interest rate problem. Its figures, based on funding arranged, rather than drawn down, show that in the first quarter of 1989 the property sector arranged a total £3.9bn of funding, £1.36bn less than in the previous quarter.

"Real Estate Finance, published by Butterworths, £50.

Short-term investment potential of office property looks attractive

London's West End has star quality

AS AN INVESTMENT, office property is back in fashion, and performance forecasts suggest that it should stay attractive in the short term; the question is whether, as the short term progresses into the medium, events will keep the forecasters happy.

A report from Rupert Nabarro's Investment Property Databank (IPD) said recently the office market showed a total return of 31 per cent in 1988, up from 28 per cent in 1987. Agents Richard Ellis are forecasting a 29 per cent return from the sector for the year to February, 1990.

IPD noted that, since 1979, financial and business services in the UK have shown a growth in output of 82 per cent, and a growth in employment of 50 per cent. The effect on rents has been most marked in the past three years, although investment performance has seen swings, roundabouts - and cessaws.

The star performer was London's West End. Forced up by occupational and investment demand, shortage of development stock and the prospect of 500,000 sq ft of Mayfair reverting to residential use over the next few years, this area saw capital growth of 41.3 per cent,



Adrian Wyatt

Sheffield, Manchester and Plymouth.

The headlines continued to be made in London. Healey & Baker commented in their March 1989 quarterly investment report on the contrast between the City and the West End at the same time pointing up a fundamental change in the investment market.

Like WG & S, they seemed to like the City of London. They said that in contrast to Mayfair, where both UK and overseas funds were buying in a market where supply was "unhealthily" below demand, the main investors in the City are overseas buyers; and that an increasingly large number are now long-term investors, looking at their acquisitions in the expectation of medium- to long-term rental growth.

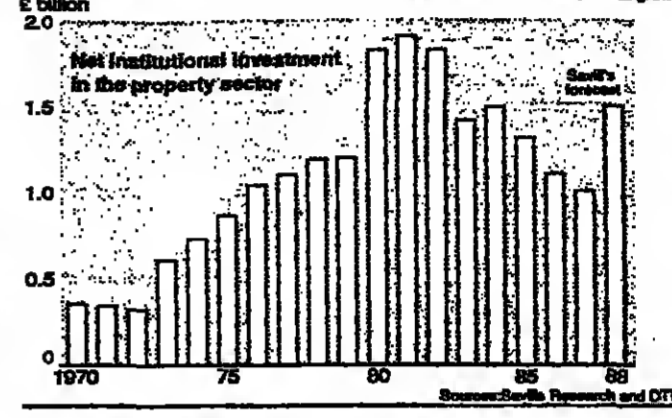
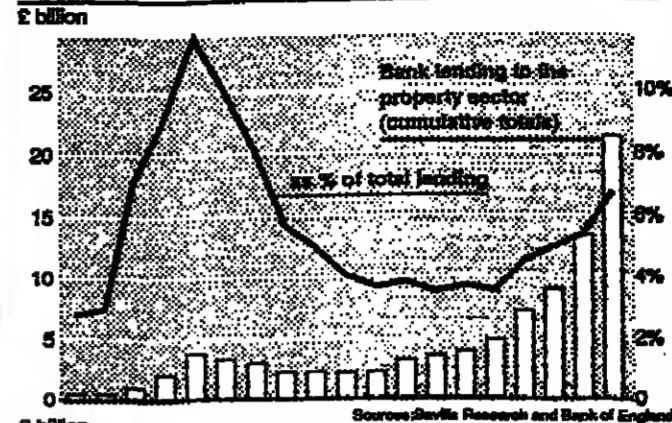
Opinion is a two-way market. It can be argued that foreign money is keeping the Central London office investment market afloat; and that some of this money is "hot" or not so cool as H&B are arguing.

Last December, a legal briefing from solicitors DJ Freeman on foreign investment in UK property noted that Rodamco, the Dutch fund which forms the property arm of the eminently respectable Robeco group, was known to have attracted "passive" investment from all over the world.

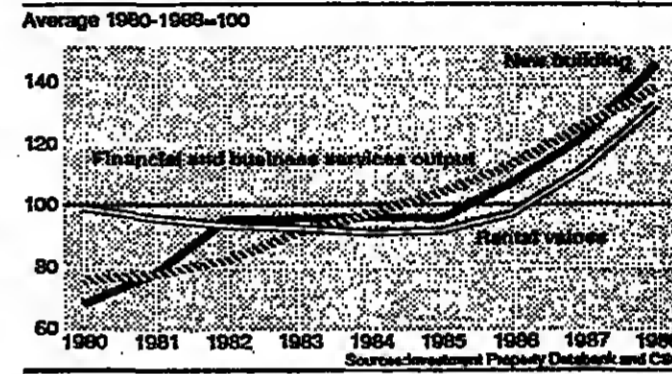
Mr Rodamco was bidding for Hamerton, one of the UK's biggest property companies, at the time.

In addition, older hands in the property game will remember agents denying that there was a problem with office supply, and demand in the recession-hit, early 1980s. There are agents now who acknowledge, and researchers who are hammering away at the theme of oversupply in the City of London office market. They say that the market has developed into two tiers, for new and second-hand space and that there is probable oversupply at both

The property sector



Office market indicators



The year 1988 went out with a whimper. There was some trepidation about 1989 but there is considerably more activity than predicted

and a total return of 47.6 per cent in 1988.

The City of London, much more subdued after the crash of 1987, turned in a 19 per cent gain; Weatherall Green & Smith, in their 1989 Property Report published last month said that the year went out with a whimper. They looked ahead to 1989 with some trepidation, but they are happier now: "There is considerably more activity than many would have predicted, substantial lettings are still being achieved and an air of optimism prevails."

Meanwhile, IPD also noted that the ripple effect of economic recovery moved north and west into provincial property markets last year. Total returns in 1988 exceeded 30 per cent in a wide range of centres, including Leeds, Edinburgh,

ends; that, so far, yields are stable but that worries are mounting over valuations in the coming years.

Mr Adrian Wyatt, a partner in Jones Lang Wootton, thinks things have changed radically in the property investment world, and points up propositions which could move the market ahead, or into reverse.

The overseas influence is not likely to disappear overnight. "With the deregulation of world capital markets a building is not concrete and glass any more," says Mr Wyatt. "It's dollars, Deutschmarks or yen."

He thinks that the phenomenon of Japanese, Scandinavian and Dutch institutions and construction companies, exporting capital to invest in UK property, will soon incorporate US investment funds: "In America, financial regulations were interpreted until recently as saying that it was imprudent to invest outside the States," he says. "Now it's quite the reverse."

In Britain, meanwhile, investment professionals are worried by the threat of the unified business rate. Parts of

the West End, they say, are looking at rate rises of 300 per cent.

They are also worried about the unlease in the financial sector. Forecasters hold that growth in the market for financial and business services might contract from its recent spectacular levels to nearer 7 or 8 per cent a year; but within that the forecasters are trying to balance the slump in City stock-broking with a parallel rise in employment among chartered surveyors, accountants and solicitors.

The question about that is whether specialists in the land, accountancy or the law need City core locations; or whether they prefer the attractions of cheaper, but potentially high quality space on the City fringes, such as Broadgate or Spitalfields, and other locations like King's Cross or Paddington.

Mr Wyatt also notes that while average growth is strong enough in itself, some provincial office rents have doubled in the past 18 months. This might, in the years ahead, give some pause to the overseas investors, who have tended to concentrate mainly on central London.

Robert Hamington, a senior partner in the investment department at Knight Frank & Rutley, thinks that the growth of financial services in London will create continuing strong tenant demand as 1992 approaches - "which is, perhaps, reflected in some of the prices being paid by international investors," he observes.

Yet the big office occupier, investing hugely in infotech and other office kit - and much less, proportionately, in the shell of the building - is more ready to demand its rights, even to pick up its trappings and walk, than ever before.

This could happen on the international stage. "The market will ignore the element of informed consumerism at its peril," says Mr Wyatt, who fears that London could see its position as Europe's international financial centre eroded by quiet, but persistent competition from Frankfurt, or Paris.

"There's zero room for complacency, in my opinion," he says. "If a common currency happens, and we're not part of it, that could seriously damage the London office market."

William Cochrane
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OFFICE PROPERTY 3

David Lawson reviews the West End scene

Rent levels nose ahead

THE favourite sport among London office developers is a tit-for-tat between the West End and City of London over which can claim Britain's highest rent levels. It would have been no contest a couple of years ago, when the City seemed literally paved with gold; now the upstart west-erner has nosed ahead, and could stay in front for the foreseeable future.

Values for the few large buildings ready to come on stream are already estimated conservatively at £70 a sq ft - which is about what the City has striven to on a landmark scheme. But they could go higher as desperate tenants fight informal tenders for this almost non-existent residue of vacant property.

Agents expected the market to catch its breath until next year before moving above the £85.50 a sq ft achieved by a snb-lating in Lansdowne House, the Berkeley Square block which has itself broken the mould by exceeding City levels when taken by Satchell for £82.50. But STC has jumped the gun, paying Ladbroke the equivalent of an astonishing £13.80 a sq ft for the above-ground floors of a new 18,000 sq ft block on the Langham Island site across Portland Place once reserved for the BBC.

Not are other record-breakers far behind. The Fleet Office is fetching out £85 a sq ft for offices in St James's Square, continuing the tendency of government departments to set standards for others by paying top whack for its property. Meanwhile that former black hole in the market called Victoria has seen MEPC net £50 a sq ft for its Eccleston Square block in a pre-let by Elne Circle - which seemed to be obsessed with moving away from London to save money only a few years ago.

This is demand gone mad in an area which has practically no modern space available for traditional service tenants bursting out of their existing homes as they expand in line with the general economy. The figures for space taken over the last couple of years seem to belie this fervour; Healey & Baker points out that lettings fell by 85 per cent to 4.4m sq ft last year. But this is merely because there was hardly any space to let.

The buoyancy of company profits has particularly affected prime rents. Businesses have been keen to maintain a prestige headquarters in the area, pushing up the value of top-slice buildings by 34 per cent a year since 1985 com-

The buoyancy of company profits has affected prime rents

pared with an average of 15.5 per cent a year across the board. Prime rental growth is now slowing but a lag effect should see average costs increase by 20 per cent this year, says H&B.

The difference between prime and average shows just how wide the market is in the West End. In fact, a large proportion of premises are cramped and poky offices, often in poor locations. At least they were poor locations. The West End is spreading into areas such as Victoria and north of Oxford Street. The Ladbroke rent shows how Portland has emerged from nowhere as a prime area and the fact that it has become a source of special reports by agents means it has really taken off.

But vacancy rates are already down to 2 per cent in the Northern Quarter, as Debenham Tewson & Chis-

locks has dubbed this strip between Marylebone Road and Oxford Street. Large premises are hard to find and development is running at only around 800,000 sq ft a year until beyond 1992, says Philip Gray of DTC.

As rents rise, some tenants may find themselves costed out. They will not be alone. As Bill Monk of Jones Lang Wootton points out, existing tenants right across the West End will not have felt the effects of rising rents because modern leases allow five years between review. But this silent majority is about to feel the cold draught of reality.

Most are small concerns. H&B points out that the average size of West End lettings over the last four years was less than 8,500 sq ft - perhaps enough space for 50 or 60 staff. Some of these could find it a strain when reviews come up. A Mayfair/St James's tenant, for instance, will have to plan for increases in line with 78 per cent compound growth since 1985.

But the giants will also be in for a shock, says Mr Monk. A recent JLV survey showed that more than 80 per cent of companies employing over 200 people were paying rents of less than £25 a sq ft, and most face reviews in the next three years.

This could lead to a spate of relocations, but that will be more difficult than in the past. The western route is clogged because Hammersmith has little space and rents are rapidly approaching £40 a sq ft, says JLV. Victoria is almost closed for entry for the moment, with most property sunk into pre-lets, although more than 840,000 sq ft is under construction and another 330,000 sq ft proposed, according to Rachel Unsworth at Clintons. If the Government can keep its hands off this space - which

has proved almost impossible in the past - there may be some available for relocators.

This has proved a spillover area for tenants pushed out of Mayfair and St James's by soaring rents, as well as a refuge for some large financial groups unable to find large space elsewhere. But rents will not be much easier here in future, after breaking the £50 barrier. One advantage may be the limited impact of rate revaluation in this area, says Clintons.

The main body of the West End could be hit hard by the introduction of uniform business rate next year, as the accompanying revaluation will reflect the enormous growth in values since the last reassessment in 1978. It will be a double blow for those occupiers already facing huge increases in their next rent review and could be the straw which broke the camel's back for many - particularly if company profits start to fade.

The 5m sq ft proposed at King's Cross and regeneration around Paddington canal basin and goods yard could be a welcome new home for those either pushed out of the centre or unable to find new space to move in. Others may jump further - north to White City or south to the rapidly developing south bank zone. Lack of staff as much as shortage of land may prove a draw. Transport nodes such as Paddington, Waterloo and Vauxhall - all of which have major developments proposed - will be a lot more attractive to commuters.

With City rents weakening, companies may even aim eastwards - or perhaps trek over to docklands. Mr Monk believes this will happen only if cost differences become extreme, but the way the West End is winning the tit-for-tat battle with the City, this might not be too far away.

THE CITY

Uncertainty and some panic

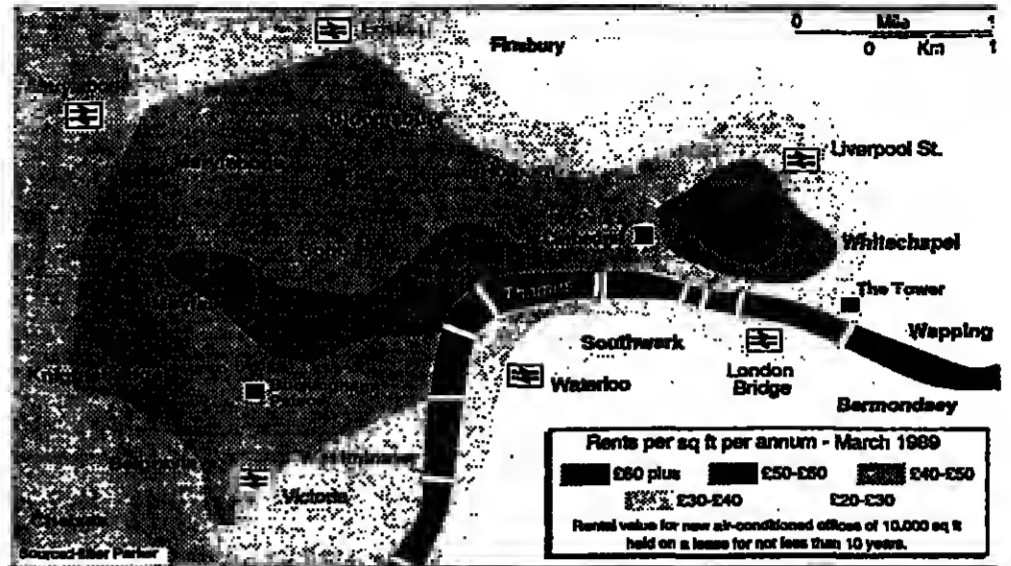
THE bulls and bears are locked in combat once more over the future of the City of London. Caught up in the bankers of certainty, they lob alternate messages of joy and impending doom into a confused mass of investors and tenants, creating even more uncertainty and panic.

The division of opinion is almost predictable. Financial analysts have a monopoly of long faces, forecasting a tidal wave of new office buildings which will hit the Square Mile with an impact reserved by ecologists for sea-level changes. Meanwhile, agents are going through their Churchillian phrasebook, promising that things are not as bad as they seem and, in any case, we will all soldier through.

Even bulls with the longest horns do not ignore the fact that the City is set for one of its periodic bouts of over-influenza. Development plans laid when financial services and professional groups were growing through the system as many groups settle back into more modest expansion. The crunch has been widely predicted for some time between mid-1991 and early 1992, depending on how supply and demand figures are estimated.

The sums vary from source to source, partly because the City's boundaries ebb and flow from one to another and partly because estimating demand is more of an art than science. For instance, Baker Harris Saunders, which has carved out a reputation as a City expert, predicts completions of 5.6m sq ft this year, 6.3m next year and 5.8m in 1991. The research group APR, used extensively by investors and agents for forward planning, plumps for figures of 6.3m sq ft, 7.2m sq ft and 3.2m sq ft respectively. This second group is the

Central London office rents



main source of ammunition for the latest barrage emerging from bearish trenches. Chris Walls, an old campaigner among teenage scribblers, sets up a gloomy scenario with his Kleinwort Benson associate Alastair MacDonald which sees rents falling over the next few years. This blasphemy has already turned to accepted faith on the stock market, where developers with heavy City commitments are seeing their shares traded at record discounts to asset value.

Messrs Walls and MacDonald calmly state what they see as the obvious: unprecedented levels of development combined with muted demand will leave more than 10 per cent of the City's office space empty by the end of next year, and almost 14 per cent without tenants in 1990 - a worse position than after the 1974 crash. Current levels stand around 8.5 per

cent. "It is over-optimistic to talk in terms of rents stabilising if that meant top levels would remain at the records achieved in the last year or so," they say in a special report. "Rents are heading in one direction - and that is down."

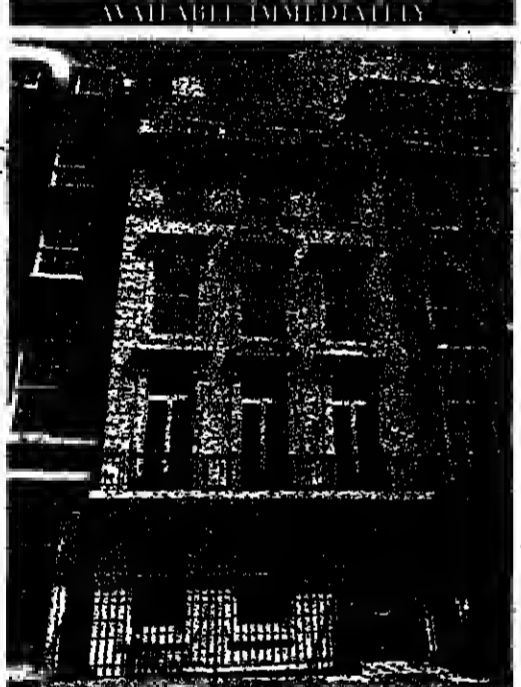
None of the bulls' propaganda seems to penetrate this steely resolve. The potential impact of a unified European market in 1992 is brushed aside: "We tend to take a rather cynical view of the potential impact. In any case, we have allowed for this by assuming a continued high take-up well in excess of pre-Big Bang levels." Even the influence of foreign investors, who are "hot" for London and keeping yields stable at 5 per cent, finds scant significance in the Kleinwort scenario. Outsiders like the Japanese and Scandinavians tend to buy

"trophy" buildings and take a very long view.

No doubt the analysts would put Obayashi's £143m price for Bracken House, the former headquarters of the Financial Times, in that category. Values are thrown into turmoil by such "overpriced" deals which appear to set new levels for the City - just as the likely £75 a sq ft that Industrial Bank of Japan will pay for the space will screw up rent comparisons.

The Barclays de Zoete Wedd property team, which gives a similarly jaundiced view of the City market in its spring review, also warns that such investment may be transitory. The US pattern shows that Japanese investors establish pole positions with high prices perhaps linked to business interests at home - but do not necessarily compete so fiercely. Continued on Page 12

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OFFICE PROPERTY 4

David Lawson traces the path of developers round the regions

Rents in an upward spiral

DEMAND for more and better offices has swilled out into the provinces like water from a choked bathtub ever since the taps of expansion were turned full on by the mid-eighties' economic revival. But the islands of surplus space left over from previous booms were so large that it took time before they were covered. Now most regional centres are drowning in excess demand.

Rents which languished for years at levels too uneconomic to attract investors north of Watford are floating upwards faster than anywhere except the most overheated parts of London. The time-lag so obvi-

ous in house prices, which did not soar until long after London took off, is being reflected in commercial values.

Since 1986, rents in all except two of the 60 centres monitored by Jones Lang Wootton have grown, averaging 30 per cent across the board last year. The hottest spots were still in the south-east in 1988, with huge differentials between a centre such as Hammersmith - where rent boomed more than 70 per cent to £30 a sq ft - and Nottingham's £7 a sq ft limit.

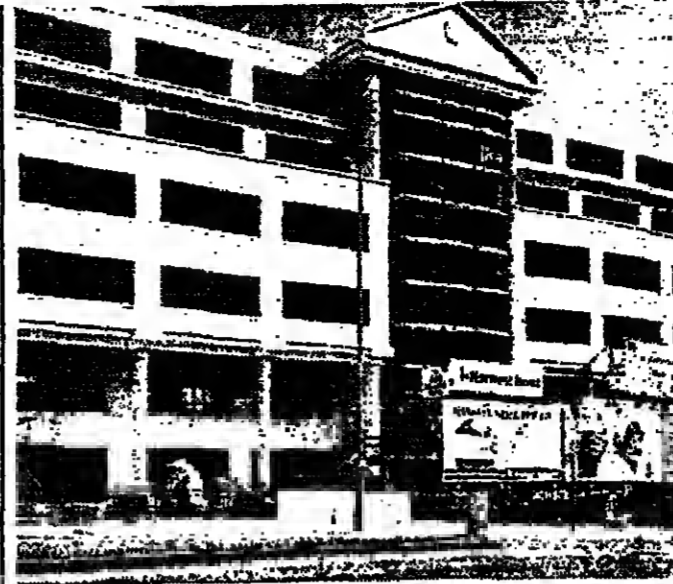
But growth is starting to slow in the overheated south-

east, while JLV predicts average increases of between 20 and 25 per cent in most regional centres. Some spots are even hotter. Birmingham, for instance, saw top rents boom by more than 75 per cent last year and is still climbing.

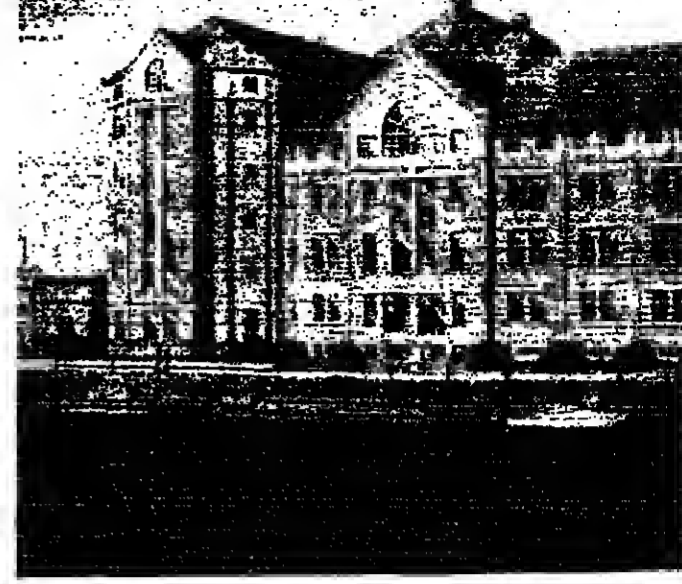
Developers are working feverishly to catch the tide. Birmingham has 2m sq ft on the drawing board, Leeds twice that amount and Bristol and Manchester some 1m sq ft, according to Mr Michael Dow, of Jones Lang Wootton. Not all will pass the planners, but there is enough potential to predict a slowing of capital growth in the early 1990s.

Some buildings may also hang around to form the next generation of islands, because the occasional developer has not learned that provincial tenants are demanding the same high-quality space their cousins in London expect.

One great uncertainty is how re-emergent town centres will react to a plethora of business parks, which because of changes in planning rules will be able to provide office space away from the noise and congestion. More than 10m sq ft is planned around Manchester alone by the mid-1990s, according to Richard Ellis.



Helical Bar developments in Cardiff (left) and Bristol (right); two cities that are feeling the M4 effect



HEATHROW/M25

Penalty for success

LONDON'S orbital motorway is turning into an obstacle course of jams and red lights as traffic levels exceed wildest expectations. But developers also face adjustment to a more sedate pace as the string of towns around the M25 begin to pay the penalty for their own success.

Rents have soared, particularly around the western sector where the motorway has emphasised existing locational advantages of the M3, M4 and Heathrow airport. Mr Russell Meadows, at agents Rogers Chapman, says £25 to £30 a sq ft is now the norm for well-designed office blocks in centres such as Staines, Egham and Chertsey, while Uxbridge has hit the top of the range.

But this enormous expansion in values has squeezed the prospects for further development because funders are chary about how much prospective growth is left when a site is being bought at top rates, according to Mr Andrew Barrs at Brian Cooper & Co. This might be no bad thing, as millions of square feet of space are in the pipeline, including a vast amount of B1 business space which now competes with town-centre offices for tenants.

The picture is not consistent around the motorway, however. Some areas are still struggling with planning and land-supply restrictions; others are returning to an equilibrium

where location must be right to win tenants and good returns, says Mr Barrs. Global supply figures also hide some crucial shortages. Buildings of 10,000 to 20,000 sq ft, for instance, are hard to find because purchasers eluded out developers while interest rates were still low enough to make freeholds attractive.

Values are unlikely to go much higher in the northern M25 centres, although as Healey & Baker points out, developers who bought sites at high rates are committed to quoting top rents. While demand is likely to remain strong, this may prove a problem in centres like Bracknell, Guildford and Heathrow, where oversupply may be a short-term problem. But Russell Meadows at Rogers Chapman is far more bullish about the clutch of buildings coming on stream along the Bath Road at Heathrow, pointing out that high specification schemes in such a sought-after area will assure success.

Even the 2m sq ft of B1 space in the pipeline fails to blunt his enthusiasm, considering the solid take-up levels. He quotes IBM's plans to take 350,000 sq ft of Rutland's 31-acre Bedford Lakes development and the big lettings on Stockley Park as an indication that tenants can take large chunks of space off the market and make the supply figures look sparse.

YORKSHIRE

Extra-big thinking

PROPOSED office developments in Leeds have drifted into the sort of telephone numbers more associated with London. Mountleigh has plans for 500,000 sq ft on the old Fairbairn Lawson works and Town Centre Securities some 300,000 sq ft on the wilds of the site. Not bad for a provincial town centre, particularly as neither development is on a prime central location.

But these schemes are thrown into the shade by an amazing proposal from Canadian-Canadian entrepreneurs Triple 5 for some 3m sq ft in a mixed development south of the city centre. The Leeds economy has returned to former glories and demand for space is soaring but such massive proposals appear to stray into dreamland, particularly as another 450,000 sq ft is already under way in the central area and only 250,000 sq ft was absorbed last year, according to Weatheralls. But the giants are long-term proposals geared to a belief that local demands and movement from the south-east will put the region under pressure in the 1990s.

Triple 5 could have been expected to think extra-big after being invited by the city council to look at the 100-acre site and then applying North American logic. It was also aiming far ahead, with a 15-year programme of phasing, but the council took fright and a much smaller development

seems more likely. Meanwhile Mountleigh will wait for a pre-let before jumping into its newly-acquired taste for development rather than asset trading.

These fringe schemes are springing from a steady demand surge which Weatheralls say pushed rents from £9 to £12.50 a sq ft last year. Take-up would be higher but for shortage of modern space and many of the offices now going up are likely to pre-let at the asking rate of £15. This tendency to pre-let has become common in recent years when occupiers grabbed what they could when buildings were in short supply as developers waited for rents to reach an economic level. Now they have broken the barrier, a surge of construction is understandable, particularly with the power and resources of a new urban development corporation helping to sort out land assembly problems.

All the main Yorkshire centres are reflecting the same sort of drive generated by a rejuvenated local economy and potential movement out of the south-east. York, for instance, can top up a massive unsatisfied demand from professional firms which has pushed rents over £10 a sq ft and as high as £15 a sq ft for small suites. Meanwhile, a group such as the National Curriculum Council has been attracted by the atmosphere and high-quality communications.

WALES

A bridge too few

THE Severn Bridge is crumbling under the weight of traffic never seen in planners' wildest dreams. Extensive strengthening and a second crossing will not be before time, as the trip across the estuary is no longer a psychological barrier to outsiders.

South Wales is finally feeling the M4 effect - although the final breakthrough needed the combined strength of surging Japanese investment, dockland redevelopments, and a co-operative drive by local authorities to create a financial centre.

Rents are modest compared with other provincial towns, with Swansea and Newport still offering developers only £5 and £8 a sq ft respectively on the best space. But values are leaping as fast as anywhere in proportional terms, feeding off buoyant demand from professional groups and a few significant relocators and refugees from the south-east. The decision by leading merchant bank N M Rothschild to open in Cardiff was a vote of confidence in its future as a financial growth centre.

Pressure on the rents in the Welsh capital, which have boomed from £7 to £12 a sq ft in two years, seem likely to continue, particularly now the relocation circus is crossing the bridge. Tesco is the latest to adopt Cardiff as a new home, moving 500 jobs from Hertfordshire. National Provident is planning the same

number and for the same reason - easier access to quality staff than overheated Kent.

Meanwhile Banque Nationale intends to double the size of the Chemical Bank mortgage services operation it took over. This is a significant decision, as CB was a pioneer relocation catch for Cardiff a few years back but it never successfully shook off rumours that it wanted to return to London.

FOR years Southampton turned its back on the waterfront that had been the origin of its prosperity, concentrating on establishing an office ghetto north of the town centre instead. But the fashion for dockland redevelopment has reversed this stance.

Ocean Village, Queen's Quay and Town Quay are sprouting office buildings, just as supply begins to tighten in the more traditional locations. These waterside schemes are mainly proving an outlet for local expansion, which has been powerful enough to push asking rents to £15.50 a sq ft in Ocean Village, according to local specialists Vail Williams.

But the vitality of this newly-emerging financial centre seems to stretch well beyond the dock areas to impress large companies which want something extra for their headquarters buildings. Skandia Life is creating itself 105,000 sq ft on the Marlands site, and other groups are sniffing around campus schemes sprouting along the M27 link with Portsmouth, where IBM was one of the first converts to the area's attractions.

In the opposite direction, Property Management International is organising one of those headquarter moves that become a landmark in regional development. Abbey Life is building a £21m headquarters in Bournemouth to designs by

SOUTH-WEST

Race for right spot

BRISTOL is making one of its regular transitions from fast to famine and back again, with more than 1m sq ft of offices under way as developers race to hit the right spot in the supply-demand cycle. Three years ago the same amount of empty space was hanging like an albatross around the city's neck, holding rents to £3.50 a sq ft or less. Today, after a bout of frenetic expansion by local business and another

wave of newcomers, the slack has disappeared, and major schemes are geared to £18 a sq ft and more.

The remaining 44,000 sq ft at Quayside developed by Intercontinental Land Tritac (Helical Bar) is available at this level, after National Farmers Union Mutual Insurance paid £11.25m for the first tranche of 52,000 sq ft. Developers are betting there is more to come. In fact, Standard Life seems conservative in suggesting only £18-plus for the 105,000 sq ft it is planning on Redcliffe Street.

The test will be whether Bristol can absorb another round of hyperactivity rather than fall back into the old pattern of over-supply. Mr Alistair Bond at Harnell Taylor Cook is optimistic about the next couple of years providing take-up continues at more than 500,000 sq ft a year. But the enormous potential of central and suburban development could see excess returning in the 1990s.

The city's strength as a prime relocation centre has come to its rescue time and again. Agents Chesterton point to the ease of motorway access and quality workforce that attract the likes of Lloyds Bank, forsaking London's attractions to create a massive centre at Cannon Marsh. But the city outskirts may benefit most in future, reviving the fortunes of Arlington's Aztec West, feeding the proposed Emmerston Green complex and helping the new development corporation find its feet.

SOUTH COAST/M3 CORRIDOR

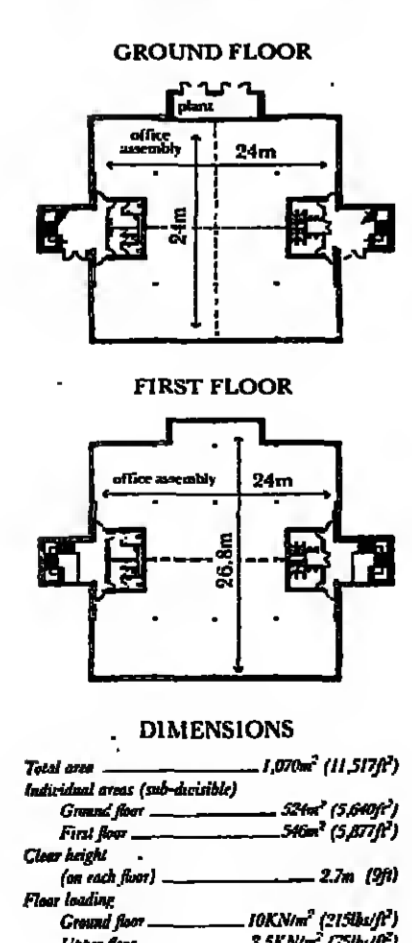
Return to waterfront

architect GMW which would put some central London buildings in the shade.

The bandwagon effect should see more converts and extra pressure on rents, particularly once the M3 connection is complete and the 1992 launch into Europe adds to the area's importance as a continental gateway. Basingstoke has already felt the M3 effect by attracting a clutch of major office users such as the recent move by Mercantile Credit to Churchill Plaza. But Vail Williams challenges the planners' allocation for half a dozen further schemes totalling more than 500,000 sq ft. It points out that the real demand is for much smaller schemes to satisfy demand from local companies. Lack of suitable space could mean this is where rental growth will be strongest.

Pressure on the rents in the Welsh capital, which have boomed from £7 to £12 a sq ft in two years, seem likely to continue, particularly now the relocation circus is crossing the bridge. Tesco is the latest to adopt Cardiff as a new home, moving 500 jobs from Hertfordshire. National Provident is planning the same

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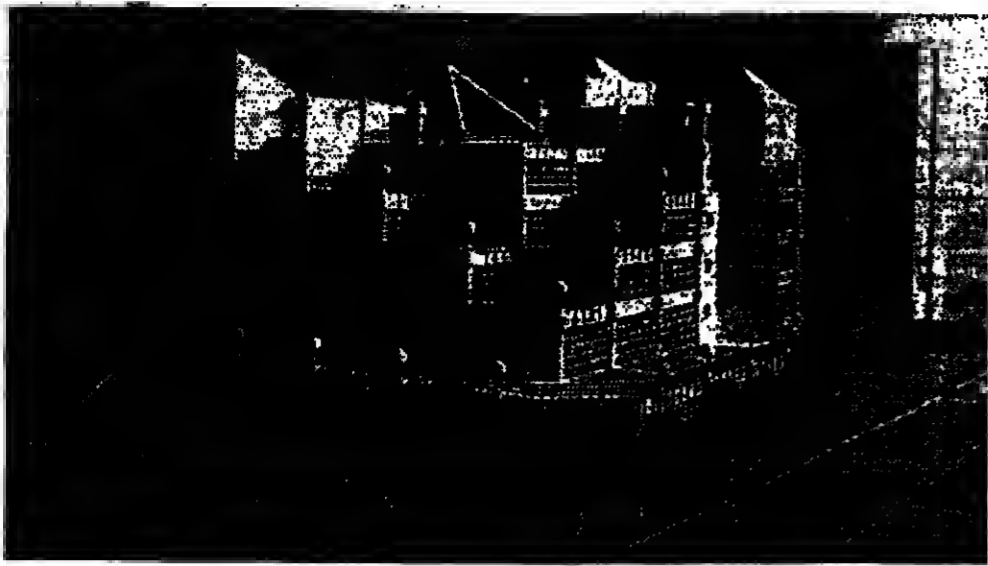
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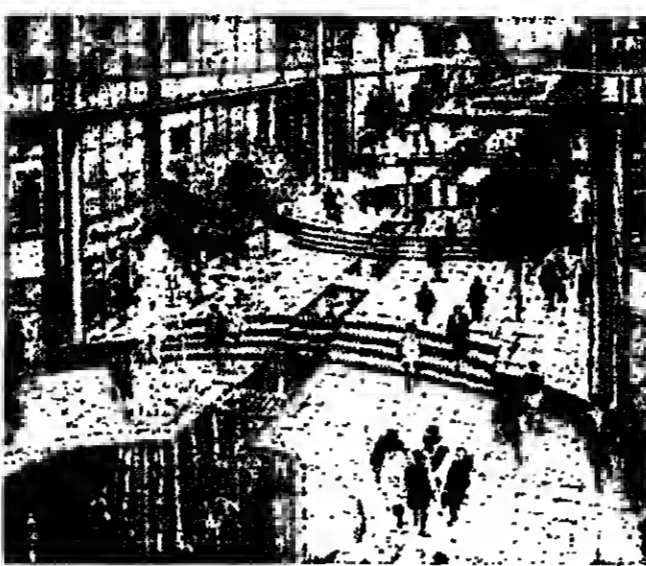
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Abbey Life's new Bournemouth headquarters: design puts some London buildings in the shade



Birmingham's Snow Hill area: they don't come much bigger



Edinburgh: attracting investment from the south and responding to local regeneration

THAMES VALLEY/HEATHROW

Space in Reading

READING'S title as boom town of the south is coming in for heavy scrutiny. On the face of it, a 37 per cent increase in rents since 1987 seems a pretty good claim to Kilmister status. But this is well below rates of growth at either end of the M4 corridor it is meant to dominate, according to Simon Fryer of agents Campbell Gordon.

Bristol's values have soared 80 per cent in that time, and if Reading's rents had kept pace with growth in London's West End, they would be hovering around £40 a sq ft by now rather than half that amount.

Maidenhead and Slough have done much better, widening the gap to achieve values of around £25 and £26, but even they are lagging behind the growth leaders.

This divergence illustrates two often overlooked facts. The first is that neither the Thames Valley nor the M4 corridor are uniform markets. Widely differing patterns of supply and demand have different impacts on different parts. The second point is that relocating businesses are not the force they are cracked up to be.

Large amounts of space have come on stream in Reading over the last couple of years, including the Prudential's 200,000 sq ft Apex Plaza development and the three phases of MKPC's Abbey Gardens. Relocators have been put off by congestion and high house prices this close to London and

tended to ignore such landmarks, looking further west for a new home. Expanding professional groups such as Deloitte and Peat Marwick have done their bit to absorb the extra space but they cannot gobble up such large lumps quickly.

Fryer figures that the recent scaling down of growth targets will restore the historical pattern as shortages arise in this central M4 area, sending Reading and Bracknell rents back into orbit. But as agents Vall Williams point out, supply is not going to dry up. Massive out-of-town schemes are now under way, such as Speyhawk's Thames Valley Park where Digital has already taken 33 acres for an office headquarters and British Telecom is set to take 250,000 sq ft.

PROPOSALS for giant office schemes are becoming a feature of provincial centres as developers and planners try to bridge the gap between demand and supply. And they do not come much bigger than the £100m proposals by Speyhawk and British Rail for a car park next to Birmingham's Snow Hill station.

At 900,000 sq ft, this will represent 6 per cent of the stock in a city already well-endowed with space during previous property booms - a massive bite for a single development. But these ambitious plans represent a gap in quality as

NORTH-WEST

The boom goes on

THE Manchester development boom shows no sign of easing. If anything it is accelerating, with new schemes coming out of the woodwork by the week.

Town Centre Securities is one of the latest to announce its confidence in the region's business capital, preparing plans for up to 500,000 sq ft on 10 acres of development corporation land around Rochdale canal basin.

This is not even a traditional office area, and has been subject to several development attempts over the years. But confidence in the local economy and the added sweetener of city grants should take things further this time.

The lack of prime sites for developers to get their teeth into has pushed them into the

fringes, according to Graham Martinich of St Modwen Properties.

The Salford and Trafford enterprise zones have also proved popular with occupiers, and rents have reached £11.50 a sq ft compared with around £18 in the town centre.

Overspill into south Manchester, particularly of high-tech organisations has naturally helped St Modwen's £30m business park.

Some tenants are willing to pay even more than central rents for the benefits of motorway access and parkland settings, it says.

But central areas will bounce back this year, if only because so little new space is ready for occupation. Parc Securities, for instance, claims

that Westminster House, its 150,000 sq ft transformation of the former county hall, is the only high-specification space available in this category for the next 12 months. The extra pressure has brought into contention some sites which would have been rejected by developers and occupiers even three months ago, says Jeremy Hobson of The Elliott Partnership.

Anything within walking distance of the financial area which can offer good parking is now in high demand. For instance, a site with potential for 50,000 sq ft in Aytoun Street was snapped up for more than £1m by City & Northern after only two weeks on the market. Manchester appears to lag in the rental stakes behind lesser provincial centres but Hobson says prices will have to be at £15-plus per sq ft and may drift towards £20 in the next 12 months, putting the centre up among the leaders again.

SCOTLAND

Magnet for investors

Edinburgh, which suffered badly from overdevelopment in the 1970s, has now boiled away its excess office space, as well as responding to local regeneration.

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what was formerly a drab backwater for office development has been transformed by a £2bn regeneration programme into one of the UK's foremost provincial centres, and optimists such as Mr James Barr in the Herring Son & Daw group predict £20 rents within the next 18 months.

Business is growing organically, swelling demand for space, but Glasgow is also picking up its share of relocators, such as Britoil, which see the revived town as a good base for northern operations. Unlike Edinburgh, short-term supply appears generous, with about 2.5m sq ft under construction.

WEST MIDLANDS

Ambitious car park

much as quantity. Spiralling costs have been spinning businesses out of the south-east and Birmingham has been their traditional first stop over the years. They demand accommodation standards as good as those now considered standard in central London but sadly lacking even in many recent buildings. Meanwhile, local companies are expanding

and see no reason why they should not be treated just as well as their southern cousins.

This would normally mean that large lumps of new development should not appear as frequently as they first seem; they will often replace rather than add to existing stock. But there seems little potential for oversupply in Birmingham anyway considering that

demand soared to almost 3m sq ft in the first quarter of this year, according to Tony Jemmet of Debenham Tewson Cheshire.

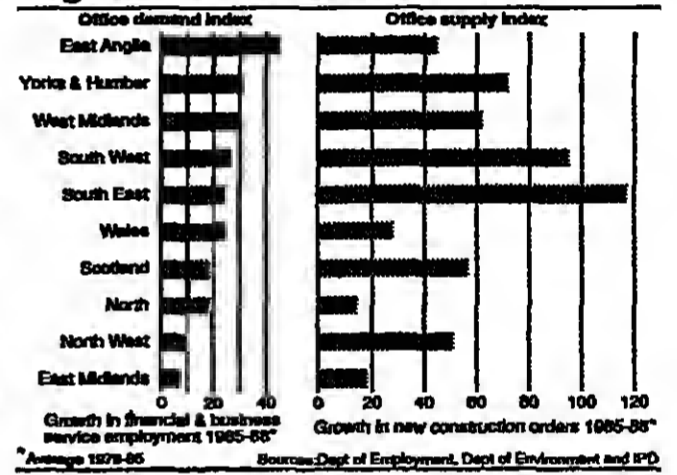
Rents have automatically followed, rising above £15 a sq ft for the best locations to bring the city in line with other top provincial centres. Not everyone is able to afford this, however, so the corollary to massive schemes on prime sites has been a surge of interest in small courtyard developments. These had already been developing in popularity, partly because of the freehold advantages of appreciating asset val-

ues and partly because Birmingham is as beset with commuting problems as any large city.

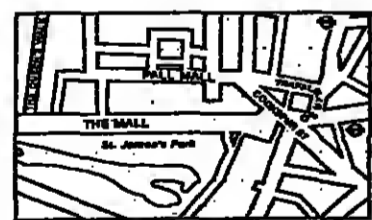
This means that development has spilled out of the central area into such schemes as The Quadrangle in Solihull, Wrens Court in Sutton Coldfield and Littleton Court in Halesowen.

The Wharf development is another example, which also illustrates the spin-off in development as the city invests in more hotel and leisure development tied up with what will be Britain's first purpose-built convention centre.

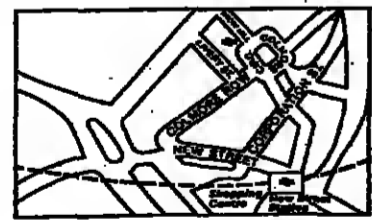
Regional office markets



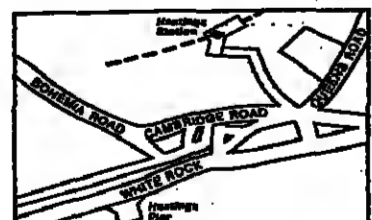
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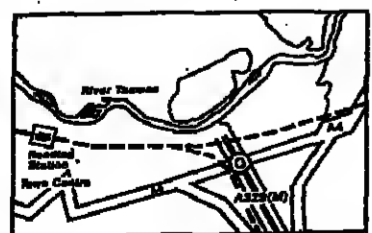
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Sum Alliance developing for the future

OFFICE PROPERTY 6

Paul Cheeseright looks at the rapid spread of business parks

Cutting edge of decentralised market

THE spread of business parks has been the most striking addition to the stock of office facilities over the past five years. There has been a ready demand which developers have rushed to satisfy to the extent that the initial phase of expansion may well be coming to an end.

But the great problem with business parks is knowing precisely what they are. There is a marketing tendency to call a couple of glossy new buildings with a few specially planted trees a business park, but the real park is something more elaborate.

Buildings tend to be two or three storeys high. They are in a landscaped area on the edge of, or outside, towns.

They have plenty of car parking - perhaps one space for every 250 square feet of office space. They have easy access, tending to be near a motorway, and the closer to an airport the better.

Established in the US long before they came to the UK, business parks used to be associated with so-called high-tech



Anells Court: eight offices due to be part of a landscaped business park in Fleet, Hampshire

buildings used by, for example, electronics companies mixing light industrial or research and development space with office accommodation.

But the 1987 decision by the Government to change the Use

Classes Order and create a B1 category which did not differentiate between industrial and office use in a building gave a fillip to a tendency for more and more office space in a business park. It enabled business park operators to look more widely for their customers.

Now the building specifications in an out-of-town park will tend to be as high as for in-town office buildings and the business parks represent the cutting edge of the decentralised office market. In some cases their rents may be at a premium to the traditional town offices.

Business parks are marketed on the basis that they offer agreeable surroundings and amenities, free of urban hassle, and that they are communities in their own right. And, indeed, there has been a tendency for banks and others in the financial services sector to move their backroom offices out of town into the parks. But the staple demand has tended to come from companies already in the area of the park and frequently expanding.

The relationship between business parks and in-town offices, however, remains difficult to gauge. Certainly a shortage of town centre supply

tends to push office users outwards, but it is not always clear that the general amenities - shopping and the rest - are available in or close to business parks.

Healey & Baker, chartered surveyors, note that business park development has really only just begun. Over the next 10 to 15 years, it predicts, they "will develop communal shopping, eating, leisure and recreational facilities with on-site medical facilities and crèches for employees' infants."

And, suggests Fletcher King, chartered surveyors, "as occupiers adopt more flexible attitudes to locations, business parks will compete in a national market with increasing emphasis on the quality of on-site retail and leisure facilities."

Research into future space needs of office occupiers in the south-east by Jones Lang Wootton, chartered surveyors, has indicated that attitudes to location are not yet very flexible and that companies like to expand in the areas of their existing occupation.

The main thrust behind the expansion of business parks, which started on the west side of London, from Heathrow Airport and spread outwards

down the M3 and M4 motorways, has been from companies already in the area and needing access to Heathrow. For the most part these were high technology companies, often international.

But this expansion has spread far. Business parks stretch west from Stockley Park, still considered by many as the model, through the plethora of development around Reading (Slough Estates, Speyhawk, and Sheraton), down the motorway past Arlington Securities' Astec West outside Bristol and into Wales. To the south-west the parks are scattered down to the Solent.

The very success of the parks in this area has created its own problems, as employers find it hard to attract new staff and difficult to obtain new accommodation. The once open areas are becoming crowded.

This factor, allied to the improvement of communications around London, has pushed the business park phenomenon across the northern side of London - developments by, for example, Trafalgar House and Mr Nicky Phillips - and now down into the south-east of England.

Indeed two of the largest planned business parks are in Kent - at Ashford where NEDA and Imry Merchant Developers are seeking planning permission and at West Malling where the Kent County Council has invited the US group Rouse and Associates to develop a new park.

With the boost to the property industry that has come from economic growth in the regions, the business parks are now spreading northwards - Arlington near Birmingham, Warrington near Chester, and so on.

Generally they are finding a ready response from tenants. For how long is less clear.

It is a moot point whether the high level of development which has been taking place, allied to the spread of in-town office projects throughout Britain, has now reached the point where a greater degree of choice for occupiers is acting as a stabilising factor on rents. Given the signs of slowing in the economy it may be that the business park market is in for a period of consolidation.

But the high level of development has had one distorting effect on the property market generally. The greater freedom for developers that has emerged from the B1 provision has led to a bidding up of land prices in the south-east to levels which can be justified only if the sites are used for offices.

LAND SECURITIES

IN ITS results for the year to March 31, 1989, Britain's largest quoted property company disclosed a \$5.2bn portfolio largely (76.13 per cent) centred in London and the Home Counties. The weighting towards London and the south is even more marked in the office property sector of its portfolio, of the total group portfolio, 59.13 per cent is in offices, and 58.53 per cent in offices in London and the Home Counties. Its involvement in office property in the north-west of England is all, and it is not much greater in the other provincial areas of the UK.

Inside the perimeters of London, Land's presence is indeed substantial. It has a development programme of 3.99m sq ft of which 1.2m sq ft is in London offices. Much of this is

MEPC

SECOND in size to Land Securities, MEPC commands a portfolio not as heavily weighted on London and the south and stretching into Australia, Europe and the US. Its most recent financial report showed the expected and substantial rise in West End asset values, and less dramatic increases to City office property as the Square Mile grinded its teeth and faced up to job redundancies. Those of an historical turn of mind may have smiled to read that Centre Point, acquired when the group bought Oldham Estates, the former Harry Hyams company, was fully let.

Its office portfolio in London takes in many of the long-established centres of City activity - buildings in Ludgate House, Blackfriars House, Old Jewry, Drapers gardens and Throgmorton Avenue.

MEPC follows a policy of managing its own properties, providing services ranging from the conventional surveying and maintenance to the security functions that have grown so rapidly in the new London of high-tech offices.

MEPC lifted its trading profit sharply in the first half of the current year but its staple support remains the income from the worldwide property portfolio. A continuing flow of rent reviews has, to a considerable extent, insulated the group against the vagaries now being experienced in some areas of office property.

Recent acquisitions to catch the eye of property analysts in London have included MEPC's purchase of a 48,000 sq ft site in Mainzer Landstrasse, set in the international banking district of Frankfurt. It is also engaged in construction work in Munich, where it has a 160,000 sq ft office development project, and in Hamburg, with a 65,000 sq ft office development.

pre-let and will produce rents of £30m annually.

Among the more visible of 700 properties are some of the major buildings and refurbishments of the 1980s - including many office premises in Oxford Street, the famed Hilton on the Park Hotel, and Roman House on London Wall.

Land Securities' office devel-

by Terry Byland

opment programme is focused entirely on London and its surrounding environs. The property research analysts at Chartered Tillye point to the differential opening up between Land's City and its West End business property portfolios. The two usually ran

neck and neck in terms of investment and growth. This year, however, net valuation uplift on West End and Victoria properties increased by 32 per cent, compared with a rise of only 12 per cent on the group's City properties.

The sheer firepower of the Land Securities portfolio may have been summed up best by Mr Peter Hunt, the chairman, with the words: "Our profit and loss account is basically underwritten by the Government and a host of Blue Chip companies; without us, they could not operate."

Just as well, then, that Mr Hunt and Land Securities are highly optimistic for the future of the London property area which is their stalking ground. They are unperturbed by the slowdown in Docklands, and see a great future for British property men with the single European market in 1992.

LAING PROPERTIES

LAING sails on a different tack from many UK groups by having nearly half its portfolio outside the country - in North America. The commitment to the US remains intact despite the disappointing capital growth recorded there in recent years. Some US areas have suffered from serious over building of office space, and shareholders were probably pleased to hear that Laing is substantially reducing its commitment to office development in Atlanta.

Last year was significant for Laing in terms of re-positioning its North American portfolio. This involved significant disposals of office developments in the southern US, and substantial purchases in Canada, notably of the Campan portfolio for \$72m.

In the UK the development portfolio has an end value of around £100m. Involvement in the central London office property sector is about 27,000 sq ft. Laing's other office properties are scattered.

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OFFICE PROPERTY 7

Richard Catt looks at a new breed of specialist advisers

Time and quality controllers

LOCATION is said to be the key to successful office development. But to compete in prime commercial property markets these days there are two other considerations: time and quality. For users, whether tenants or owner occupiers, running costs, which include maintenance, cleaning, fuel and insurance premiums, are increasingly important. Any significant expenditure above the norm inevitably nibbles away at rental values.



Project management: underpinning Montreal Cathedral to allow adjoining offices to be built

Investors and developers want fast delivery of new office buildings, although they do not expect to pay over the odds. They want the best from the construction industry at the best price.

These factors have persuaded many developers to turn to a new breed of specialists who offer advice prior to acquisition, and "value engineering" and project management during the building process. These are specific independent and separate disciplines from architecture, engineering and construction.

Mr Jo Stocks, of chartered surveyors Watts and Partners, specialises in advising fund managers who buy standing buildings as investments, share equity with developers or buy new schemes from them. He likes to be called in at the earliest stage of acquisition, so that his clients can avoid pitfalls that can turn a scheme that looks good on paper into a letting agent's nightmare.

Before a firm takes over an existing building Mr Stocks identifies any inherent defects - short life or dangerous materials - concrete with quick setting additives that corrode essential reinforcement, cladding held together with lithium nitride fixings and adhesives, asbestos and defective air conditioning systems.

Equally, however wall walls, windows and roofs are insulated against heat and cold, the ratio of external wall and window area to floor area and orientation of buildings can have a far greater effect on fuel savings than double glazing and venetian blinds.

Flexibility is essential to meet the aspirations of growing businesses and the drive towards more sophisticated information retrieval and delivery systems. This means fully adaptable air conditioning to allow for different configurations of partitions on each floor, particularly if buildings are to be shared; raised floors and extra ceiling power capacity to anticipate technological changes.

Mr Michael Morris, of international quantity surveyors Hanscomb which has offices in North America, Africa, Germany, Turkey and London, offers developers value engineering which "examines the functions of a project and their contribution to worth and whether or not they can be provided in other ways at less cost". The idea is to minimise costs, including running costs, without compromising quality.

Savings of up to 15 per cent can be made using this technique, Mr Morris says. Hanscomb has developed its own software programmes as a result of a commission to advise the US military which was charged by the govern-

ment to shave 5 per cent off military expenditure. He is now chairman of a board which investigates ways of appraising estimates for accuracy for federally funded projects.

Once developers give the green light, the building still has to be constructed. Budgets and programmes have to be set, consultants and contractors selected and the project driven home. This is an intense activity best handled by specialists, according to Mr Derek Hammond, of Project Management International.

A building site is like a temporary factory set up on someone else's land, beside neighbours who expect quiet enjoyment of their own premises. On a city site, the web of legal complexities - down to keeping quiet during the day for office workers and at night for people who live and sleep nearby - and the practicalities of delivering men, materials and equipment at the right time and disposing of rubbish can cause enormous headaches.

Mr Hammond knows this only too well: he worked for Chubb's as site manager 30 years ago during the construction of the West London Air Terminal. His efforts were frustrated by slow delivery of key architects' and engineers' drawings, Labour disputes and a major fire when the building was nearly complete added to Mr Hammond's problems.

With this behind him Mr Hammond teamed up with Mr Trevor Osborne (who went on to found Speyshaw's the property developer) to advise the emerging private airlines who wanted premises from hangars to offices and check-in facilities

immediately. While Mr Osborne concentrated on obtaining leases and sites, Mr Hammond delivered the buildings at top speed.

The techniques he developed are now the basis of his international business. Project Management International selects a senior partner to lead a which establishes the brief, then sets out initial feasibility studies, appoints consultants, advises on building contracts, selects the builders, supervises the work and sees the tenants into their new accommodation.

Shortlisting suitable builders is an exacting task. Mr Hammond ensures that the contractors have the necessary resources available in the location where they are needed. The contractor must be carefully examined on his home ground and have the right attitude towards the intended project. Then, the price must be right, which will not necessarily be the lowest.

Mr Michael Samuels, project manager at chartered surveyors Hillier Parker, selects contractors after analysing the results of questionnaires (which run to 12 pages) received from contractors on his own computer. He never wastes builders' time, and is as proud of his company's reputation among contractors as he is of the regard in which it is held by clients.

Mr Jo Stocks says that the prestige of the contractor may have little to do with site performance. Efficiency depends on the character and commitment of the people involved at the time. Few contractors will refuse to tender for a major contract and those firms who cannot demonstrate that they really want and can do the job are weeded out early on. This is largely a matter of instinct, however carefully he interviews key staff before assembling the tender list.

Mr Michael Morris, of Hanscomb, says the builders often field their first team at interview, only to bring on inferior substitutes later.

Good project managers earn their fees several times over by controlling the pace and direction of the development and getting value for money.

Their appointment is often requested by other members of the development team, although most welcome the freedom to concentrate on what they can do best.

JACKSON-STOPS & STAFF AND ESTATES GAZETTE ANNOUNCE THE COMMERCIAL PROPERTY LANDSCAPE AWARDS 1989. The definitive property award. For an entry form ring 01-499 6221.

David Lawson investigates the attractions of Docklands

A window of opportunity

SOMEONE on the top floor of Merrill Lynch's Ropemaker Court headquarters will know all the details behind the US bank's deal to move lock, stock and barrel from the City of London tower into Canary Wharf in 1992. But it is unlikely they will spill the beans.

By rights this should have been the crucial transaction which wiped smears off the faces of critics, proving that the £2.5bn docklands giant was not a wild gamble but a shrewd piece of speculative development. Everyone was waiting for a blue-chip business to move, sanctifying the giant building site for others to follow. The "thundering herd" seemed to fit the bill.

But doubts still nag about the real economics, kept a close secret by Merrill and developer Olympia & York. Cynics are left to suggest O&Y may have repeated its deal over Battery Park, a similar off-centre office complex in New York. The developer bought Merrill's headquarters on Liberty Plaza and the bank took 4m sq ft in the new complex instead. But Merrill did not move all its staff and eventually put 1m sq ft back in the hands of O&Y.

If the London deal follows similar lines, Canary Wharf remains untested by a real letting and a huge shadow over the potential success of docklands. Another 1m sq ft is reserved for Credit Suisse and Morgan Stanley, but they were development sponsors, so again they might not be set to pay a market rent. This accounts for continuing scepticism about the scheme, even though it is obvious that O&Y will see it through. The company, as the world's biggest private developer, has no shareholders to worry about and massive reserves. It also takes a long view - perhaps 10 years longer than most UK analysts - about judging success and failure.

That would be the best way for everyone to look at this massive complex, where the equivalent of a complete provincial town centre is sprouting amid defunct wharves and cranes. But short-term judgements are irresistible, particularly in the context of the balance of supply and demand of office space for central London as a whole. It is ironic that Canary Wharf is dismissed by many observers as unattractive to quality tenants yet often lumped in with City space by the same people to indicate a possible massive oversupply in the 1990s.

Even taken alone, however, the amount of space in the site of Dogs appears massive. Barclays de Zoete Wedd's property team figures on 15m sq ft coming out of the ground by the end of 1992 - three-quarters of it speculative - and a further 5m sq ft in the rest of docklands by the following year. This does not impress BZW, which says the area is still unattractive to central London tenants. Time and financial inducements are essential before a critical mass of 18m sq ft is let; only then will Docklands attract tenants for reasons other than tax incentives and cheap rents, say analysts.

Even James Lang Wootton, which shares the task of marketing Canary Wharf with Debenham Tewson & Chinnock, implies a fairly bleak view of the area this year, with 15m sq ft more space due on stream to boost vacancy rates already above 20 per cent. Rents will therefore remain static at around £20 a sq ft at least until the middle of 1990. But the agency has adopted the longer-view of their employers, pointing out that dramatic improvements will

take place in the second half of next year as transport improvement takes effect and more shopping and leisure facilities come on stream.

Fears about getting staff in and out of Docklands have been a major barrier to tenant interest. O&Y has been pressing the Government to allow a private bill to open a new Tube line from Waterloo and offered to meet a third of the estimated cost of £450m - it is already meeting part of the costs of the light rail extension into the City. Now there are suggestions that the developer wants an even more ambitious extension of the Jubilee Line from Charing Cross.

Most of these ideas will not have an effect until after 1992, however, if they take place at all. By then the first stages of Canary Wharf will be finished and waiting for more tenants, as will several other office developments. It may be more than coincidence that the unified European market will also take off that year. Developers are praying fervently that overseas financial groups

with fewer prejudices will have chosen Docklands.

Things have gone surprisingly well for Docklands up to now, with demand almost matching supply. Deals are still going through at respectable levels, such as the 30,000 sq ft let by Knight Frank & Rutley for London & Metropolitan at £750,000 a year to the D C Gardner group in Harbour Exchange. Enterprise zone tax advantages have also attracted investors to buy parts of Thames Quay and Harbour Exchange. But the next few years will see a sea-change as supply takes a quantum leap. KFR sees it as a "window of opportunity" for Docklands to attract not just overseas tenants but those spilling out of central London. The critical factor will be convincing outsiders that the place is worth going to - and that they can get in and out. If developers can do this - and they are already considering a PR marketing campaign to get the message across - the high stakes will produce even higher rewards.

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OFFICE PROPERTY 8

ARCHITECTURE

A battle of tastes

THE war between conservationists and developers over the shape of Britain's office architecture, fired in early summer by controversy over the Rose Theatre site on London's South Bank, flared up again this month as Peter Falumbo won his fight to develop Number One Foultry in the heart of the City.



Commercial Union Properties, St James's: a £4.2m refurbishment of a Grade II listed building in Waterloo Place

Mr Nicholas Ridley, the Environment Secretary, gave his permission for the development, which has been waiting for the official imprimatur for 31 years. And Mr Falumbo, the developer who has been chairman of the Arts Council since April, gained the right to demolish 13 Victorian buildings, eight of them listed.

These are to be replaced by a much-criticised design by the architect James Stirling. The Prince of Wales has described the scheme as looking like "a 1980s wireless". The planning decision goes against the wishes of the City of London planning committee; it is contrary to conservation policies; and the Financial Times architectural correspondent described it as "incredible".

Entertaining as the language might be, the Foultry affair is just one of many arguments about the external fabric of Britain's buildings, and the feeling that the country's architectural heritage is being sacrificed to the god of profit. There is another side to the debate: the inside. Back in April, architect Frank Duffy and economist Alex Henney said in a new book that discussion had concentrated too much on height, bulk, facades and detailing, they argued the spotlight on interiors, and implied that the fuss about facades has been overdue.

Mr Duffy's firm, DEGWA, has majored on the impact of information technology (IT) upon the office environment. Its research work has influenced mega-developments such as Rosehangh Stanhope's Broadgate in the City of London, and Stockley Park at the London end of the M4 motorway. The book declared that the use of IT has exploded over the past decade: "Investment in IT by investment banks in 1987 was about £2bn, to which another £1bn can be added as an estimate for the rest of the City."

building heights elsewhere in the country, but low-rise buildings also provide a much higher ratio of net to gross office letting space.

There is a price to pay, and that is paid by the public at large. Reduced heights, according to Mr Ryder-Richardson, mean that developers have to build to the very perimeter of a site. "If you reduce that by 10 per cent you would have a very much looser building," he says, "but if you produce 10 per cent less, that becomes very expensive space unless the value of the site has fallen to accommodate it."

"If the public recognises that what they want is less," he says, "it then takes some time for that recognition to filter through to developers, investors et al." However, he says, if enough people decide to think that way, then the call for space and light will be strong enough to transcend the profit motive.

Mr Ryder-Richardson questions the size of floorplate, 30,000 sq ft and more which, according to conventional wisdom, is what the deregulated UK securities industry needs for the last decade of the 20th Century, and the beginning of the 21st.

"We looked at a building proposition for a securities house two or three years ago in respect of requirements for 1993, and then 2010. We saw anomalies in the proposition," he says, "and we were asked to test its assumptions."

"It turned out that the prime demands in a securities dealing team had been asked how much space they needed, worked out the figure - and added a bit for luck. The next level of management added a bit more, and so on up the chain of command. By the time it got to us, it was very nearly double the real requirement."

"The City loves its traditions so it only shot the messenger. We got sacked," says Mr Ryder-Richardson. It may be some consolation to him and GMW that the market did not manage to supply that company's space requirement before it ebbed with the crash of '87.

William Cochrane

"The Changing City, price £75, published by Batsford Press. (Tel: 01 935 6067).

David Lawson records one response to brokers' predictions

Doom and gloom dismissed

IF the old adage is true that money talks louder than words, the property industry's entrepreneurs should have no trouble drowning out the drone of gloom and doom emanating from a stream of City brokers' reports. Some privateers have been spending like there is no tomorrow, convinced that money is there to be made on

the right buildings in the right place.

Mr Beriah Berger, who took Jack Rose's Land & Property Trust into private ownership, has no truck with warnings that investment values are set to fall. He is vigorously uprating the secondary nature of the company's asset stock, shelling out close to £250m in the last

year on a clutch of major office buildings like the Island site in the City's Finsbury Pavement and Hoekyns House in Shaftesbury Avenue.

In complete opposition to warnings about an impending tide of surplus London space, he feels the investment market will remain strong for the foreseeable future because there are not enough top-class buildings to meet the needs of expanding professional tenants and overseas tenants and investors.

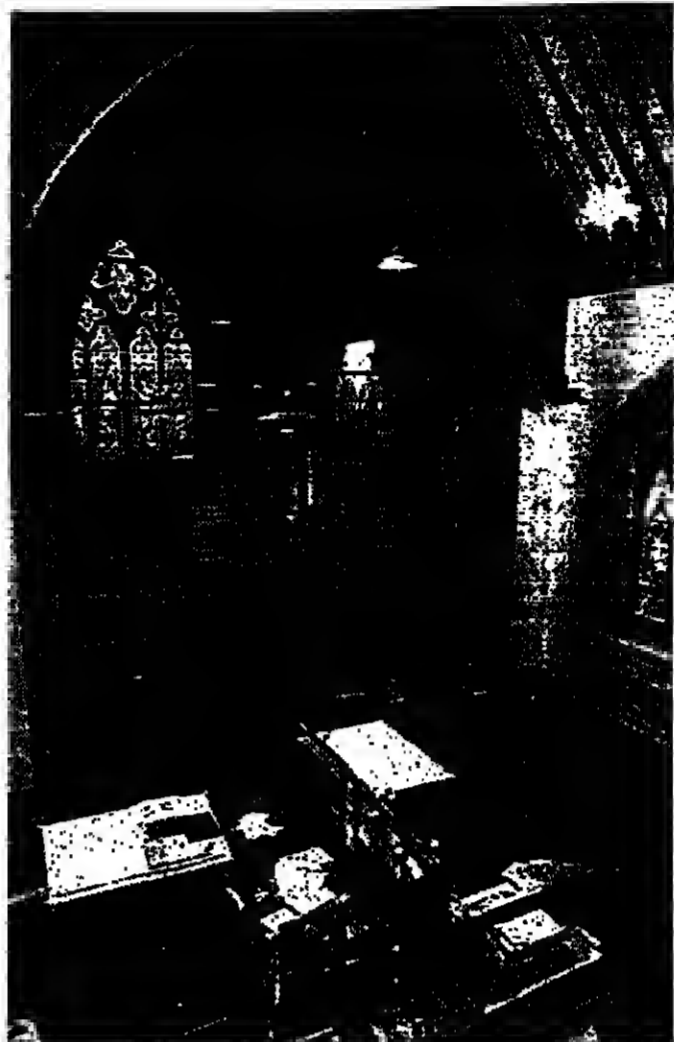
One of Rose's main legacies was more than 50 buildings in the Smithfield area. Once an isolated backwater, this is now part of the buoyant "midtown" zone including Holborn and Fleet Street, where rents have boomed to between £40 and £50 a sq ft as lawyers and accountants eat up space and tenants spin out of the high-priced acres of City and West End.

LPT is capitalising on this with a 215,000 sq ft development on Cowcross Street, near

Smithfield market, and another 300,000 sq ft in City Road, also part of this expanding fringe zone. Mr Berger sees the whole northern strip raising its sights as communication improvements like the Thameslink and

Some privateers have been spending like there is no tomorrow

cross-London rail line take effect. Once the giant King's Cross redevelopment gets under way, this hazy no-man's land between the twin peaks of City and West End will become more defined. The rental trough is likely to gradually fill, with the southern end close to the river quickly matching more central locations and demand spreading north to absorb fringes like Smithfield and Clerkenwell.



Marketing Spectrum, a Marlow-based advertising, public relations and exhibitions group, moved into a local church when expansion plans forced the company to look for larger premises. The company is spending £250,000 transforming Old Trinity Church into prestige offices.

Advertisement for CROYDON, featuring a cartoon illustration of a rat and text: "ONLY 20 MINUTES AWAY FROM THE RAT RACE". It describes the benefits of Croydon for businesses, including proximity to the airport and central London.

Advertisement for YORK, titled "THE DISTINCT ADVANTAGE". It features a large, stylized graphic of a hand holding a pen, symbolizing business and precision.

Advertisement for Villa-style headquarters, featuring an illustration of a large, multi-story building complex and text describing the project.

Wimpey Construction is creating a villa-style headquarters for security printers De La Rue at Basingstoke, Hampshire, where the company already has several buildings. The £11.7m centre, which will house 350 staff, is aptly named Casa De La Rue.

Advertisement for CHESTER THE QUADRANT AT CHESTER WEST, a superb high quality 25,240 sq ft B1 development by WYNCON GROUP. It lists Simon Bolton & Company as the sole retained agents.

Chief Executives and Property Directors - question the need to remain in the overheated South East. Enjoy quality of life, loyal workforce, low costs and easy access - powerful arguments for relocating - in Glasgow - European city of culture 1990. Unique opportunity for occupation in 2 years of skyline dominating 'intelligent' tower - up to 250,000 sq ft - now at detailed planning.

Advertisement for CROESO I CYMRU, featuring Powell Sturge and text: "And welcome, too, to Powell Sturge. As the newest of our six offices it introduces a name which combines strong traditions both in South Wales and eastwards along the M4. For all commercial property business, you will be most welcome to enjoy the benefits of our strength and experience."

Advertisement for THE NORTHAMPTON BUSINESS PARK, a 50 Acre Business Park Development commencing June 1989. It features logos for Underwoods Commercial and Nelson Bakerwell.

Advertisement for LONDON ROAD CRAWLEY, a development by SHERATON SECURITIES INTERNATIONAL PLC. It features logos for Stiles Harold Williams and Peter Taylor.

OFFICE PROPERTY 9

Terry Byland examines the demand for 'business centres'

Serviced suites are now in fashion

THE growth in the market and supply of serviced offices, often grouped together as "business centres", in which the client leases furnished business premises and also a range of ancillary services, has enjoyed unprecedented growth over the past two years. Central London, spearheaded by the West End, has proved the most active area for this form of property development, but the clients have increasingly originated from the UK provinces, or from further afield.

Since 1986, 26 new serviced office complexes have opened for business. The provision of office services has become more sophisticated than in the 1960s, when the business centre market first emerged in the UK.

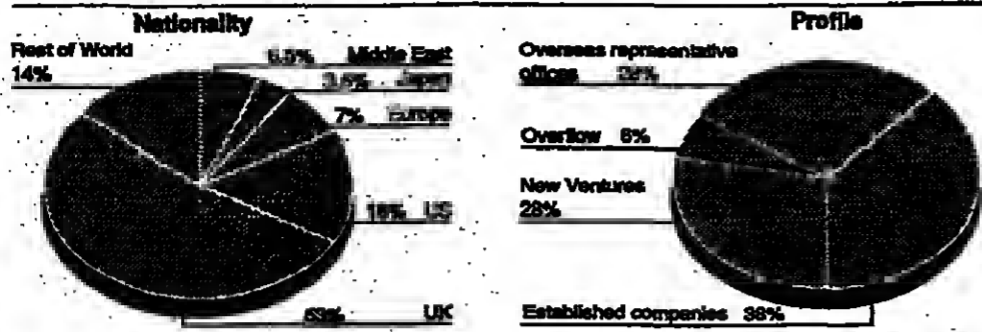
The provision of office services has become more sophisticated than in the 1960s, when the business centre market first emerged in the UK.

expect to hire executive secretaries, boardrooms, and catering services, often by the hour. This has encouraged the use of serviced office suites as semi-permanent London headquarters by overseas or UK provincial firms.

The rapid move into high technology office and communications systems, far from restricting the growth of serviced offices, has given a further impetus to their use. Out-of-town clients find it more suitable to operate from offices already supplied with the full range of electronic business equipment than to rent office space and then set to work to attach rented computers to plugs which may or not work and may or not prove friendly to the rented machinery.

The objectives behind the provision of business centres have, in fact, changed significantly, according to Winter & Co, specialists in Central London office property. Where clients formerly sought little more than flexible, short-term

Business centre users

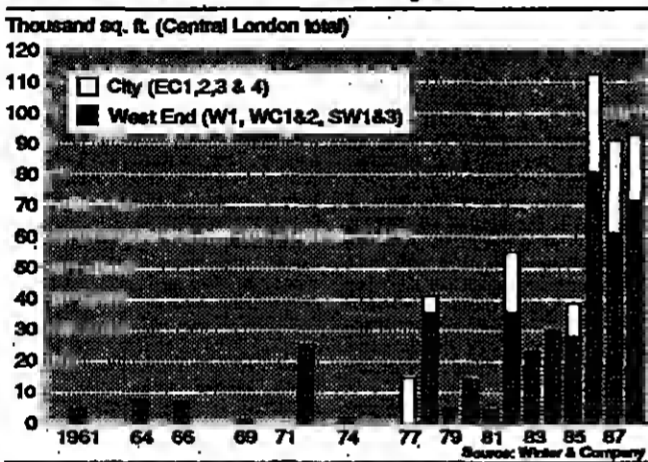


accommodation with minimum low cost services, their needs are now more diverse.

More and more the serviced suite must act as the stage on which the company presents itself to its customers in an essentially foreign environment, often a foreign country. In addition to the more obvious office requirements, the premises need to provide the background of "a business club". International clients may indeed want their serviced suite as a venue for talking to clients, showing business videos, interviewing prospective staff, or briefing sales staff rather than for more routine operations.

Some specialists in the business centre field are already considering making reciprocal arrangements with centres in other European countries, with the aim of offering clients a rented presence in all the

Additions to total floor space



world's major financial centres. The long shot in this dream is the development of some form of time share network, although the name itself is not too popular because of

The rapid growth into high-technology office and communications systems has given a further impetus to the growth of serviced suites

its unfortunate associations with the tourist brochures. Setting aside such futuristic ambitions, the essential expansion of the serviced office business is now well established. The market in the West End of London and the City has

expanded by more than 300,000 sq ft over the past two years, a rate of growth far in excess of that of the previous 20 years which roughly encompasses the life span of the UK office suites business.

The West End leads the market in terms of client popularity. After remaining constant between 1980 and the late 1970s, the level of new starts in West End business centres has forged ahead during the 1980s. The peak year to date was 1988 when eight new centres started life, representing an addition of around 80,000 sq ft to total floor space.

Last year saw growth continuing in the West End, where additions to floor space totalled just over 70,000 sq ft, against 60,000 sq ft in the previous year.

The West End experience contrasts with that of the City of London, which has led the league of rental growth although lagging behind in terms of new starts and floor space additions.

Big Bang was reflected in new starts of business centres in the City in 1986, when 12 new centres were started, compared with only seven in the previous year and only one as recently as 1981. The numbers have topped off quite smartly as the City has had to stretch in the face of the stock market crash of 1987. Last year saw only six new centres started in the City.

Yet City of London inclusive rentals for serviced offices still lead the market, with figures of £110 per sq ft topping out on Mayfair, the most popular of the West End sector, which turns in rental values closer to £100 per sq ft.

The contrast between City and West End lettings over the past three or four years reflects a deeper shift in the market. There has been a marked decrease in occupation of London serviced business centres by US-based companies, and a parallel increase in the share taken by UK companies which now represent more than half London occupancies.

This in part indicates the growing sophistication of the market in the UK and partly the growing internationalisation of the City of London. Business centres were well established in the US by the 1960s and US corporations operating abroad were more easily convinced of the advantages of renting serviced office accommodation. But UK clients have become increasingly willing to accept the service

concept and have taken an increasing share of the premises available in London.

At the same time, the approach, and then the reality, of Big Bang in the City of London encouraged many US security firms to make the move from relatively short-term leased premises to longer term leaseholdings or even ownership.

Winter & Co, which has been reporting annually on the serviced office market since 1986, believes that demand now outstrips supply in this sector of the office property business. Most of the smaller, badly-organised rental concerns which proliferated as in past years have now closed, Winter believes.

The professional standing of leased office centres has much improved and, with 1982 likely to increase the demand for office representation throughout Europe, further involvement by the bigger property institutions is expected to set the scene for a further expansion of business.

Analysis of property company shares

Positive rethink needed

MORE than one of the regiment of analysts specialising in property company shares on the UK stock market has drawn attention to divergence of views on the office property market between the "real property" operators and those who merely buy and sell the shares. The stock market has long decided that the property boom is ending, and that property rates poorly as an investment at present; yet, the property companies themselves continue to report a steady string of successful deals at rentals or sale prices not far from the peak levels chalked up over the past year.

The discrepancy has caused one leading stock market analyst to comment, caustically, that the levels of discount between asset values and current share prices is predicting "imminent thermo-nuclear war". Dramatic words, but not entirely unjustified at a time when one of Britain's largest and most successful property groups is trading on the stock market at a 15 per cent discount to 1987 asset values.

In the eyes of the stock market, the UK property market, including the office property sector, has suffered from two loosely-related discouraging factors. In the first place, the last boom in office property, especially in the City, was clearly linked to Big Bang on the Stock Exchange, a development which has now begun to earn investment a bad name.

The flood of foreign and UK banking money into the Square Mile ahead of Big Bang changed the face, first of London and then of almost every other major town in the UK. For the property world, the sudden demand for buildings capable of taking aboard the mass of technology required to run the new electronic stock market meant a hectic programme of building new structures and completely refurbishing old ones.

The other bear point in the general perception of property companies has been the all-too-visible upward thrust in domestic interest rates. A generation of investors was taught by the 1973 property crash that high interest rates are the bane of the property world, and the lesson has perhaps been learned too well.

Property shares have been regular casualties whenever "interest rate fears" have hit the stock market, as they have so regularly over the past 12 months. Weakness in the share prices has been fuelled by losses in retail shares, which are seen both as victims of the

There may be room for reconsideration by City analysts

same interest rate worries and also a declining source of demand for new commercial property.

There is much truth in both the Big Bang and the interest rate argument, but Mr Gareth Evans of Charterhouse Finance, a member of the Royal Bank of Scotland group, would argue that the effects have outrun the logic.

The banks and securities houses have been by no means the only tenants supporting the demand for office property. Solicitors, accountants, public relations advisers, have all expanded their roles and physical presence in the modern international financial markets. Mergers among firms of solicitors, once barely thought of, have accelerated as the more aggressive partner firms have struggled to capture a share of the new business.

This trend will be greatly strengthened in 1992 as trade and business barriers come down in Europe. Already, London houses many estate agents and lawyers dealing solely in properties in Europe, perhaps specialising in a single country. It is this area of business development that will keep demand for quality sites high, believes Mr Evans.

He quotes the recent pre-letting of 25,000 sq ft in Chancery Lane, the heart of the UK legal professions, at more than £50 per sq ft by Orton, independent subsidiary of MEPC. Another source covering the legal profession has identified

four or five solicitors or barristers wanting between 150,000 to 200,000 sq ft, and nearly 40 similar firms looking for new premises within the next two years.

The "rent index" produced by Hillier Parker, one of the largest UK agencies, shows that during the year to May, the all-property rent index was up by 21.5 per cent, with office rental growth accelerating to an annual rate of 22.1 per cent. As experienced in the domestic housing market, growth in London and the south-east may be slowing down but elsewhere it is now rising faster.

Another force likely to keep the UK office property market strong is the increasing investment from abroad, and notably from Japan. The recent purchases and development of properties as diverse as the former Central Post Office building and of Bracken House, the old home of the Financial Times, have brought record prices and, presumably, rental charges for buildings effectively discarded by their former owners as inadequate for their changing needs.

It is against this background that the recent round of profits figures from major property groups can be evaluated. MEPC's interim results showed a gain of nearly one third in pre-tax profits from a group with a 3.5m sq ft development programme in hand, at an estimated cost of £1.2bn.

Imry Merchant, in the news more because of the Rose Theatre site than its successful trading performance, almost doubled pre-tax profits this year, as well as pushing net assets ahead by more than 70 per cent.

Perhaps it can now be revealed that Land Securities is the property group which, until very recently, was trading at a 15 per cent discount to the asset value of the year before last; and this was after reporting a 20 per cent increase in pre-tax, a 28 per cent increase in net asset value, backed by 32 per cent growth in office holdings in the West End and Victoria districts.

If this news from Britain's largest quoted property company was not at first taken to heart by the stock market, then there may be room for some reconsideration by City analysts.

Terry Byland

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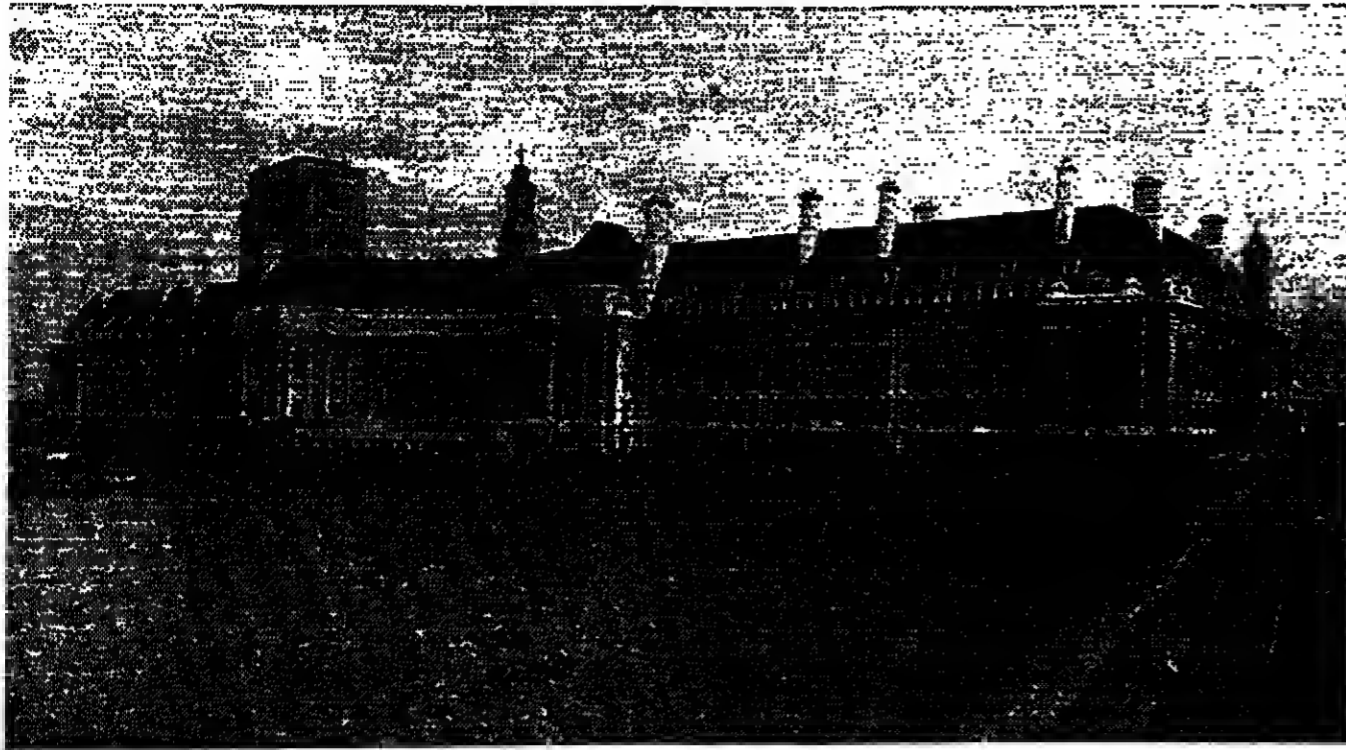
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OFFICE PROPERTY 10



County Hall on the south bank: a political minefield that looks as though it will be cleared after years of intensive work

PROFILE: LONDON & METROPOLITAN

Hefty children to nurture

BIG is enticingly beautiful in the property game. Economies of scale often outweigh effort divided among lots of smaller buildings. But giants are awkward and lumpy. Risks are bigger, so are development times; demand for space may have dried up by the time a scheme has moved from conception to maturity. They also breed suspicion and resentment.

For a company around for only a few short years, London & Metropolitan seems to have few fears about nurturing an impressive brood of these hefty children. A clutch of business parks in the Home Counties rack up floorspace figures like telephone numbers, although these squeaky-clean newcomers are relatively without risk because of buoyant demand for greenfield offices. And planners emancipated by changes in the Use Classes Order can cause few problems, provided development is outside the green belt.

Inner city monoliths are more of a problem. The County Hall site on London's south bank is a political minefield that has still not been cleared after years of intensive work as high as Cabinet level. How-

ever, it should be cleared by a September public inquiry into refusal of the local authority to contemplate changing the former Greater London Council's home into more than 1m sq ft of offices, an hotel and flats.

All the effort will prove worthwhile, according to Mr Chris Lewis of L&M. "The West End is fast running out of big buildings

West End is fast running out of big buildings and this is a natural overspill," he says. The impending redevelopment of Waterloo Station as a Channel Tunnel terminal will also turn this into a magnet area for overseas tenants looking for quick Continental connections as well as those aiming to hire staff from commuterland.

Risk has been limited by spreading the scheme through a consortium of 19 shareholders - split about equally between UK and Japanese banks. L&M has a 10 per cent equity stake, committing it to around £18m. It also has an

income flow projected as sole project manager and joint developer with New England Properties.

This multiple role was a characteristic built into the company when founder-partner Mr Balfour Beatty went looking for extra construction work by tapping the development expertise of the Beckwith Brothers at London & Edinburgh Trust to set up L&M. LET has now sold its interests but the two companies retain some close contacts.

One is Spitalfields market, where L&M is project manager for about 1m sq ft of offices proposed by a consortium led by LET. This is another complex saga of political protest and changing fortunes on an overspill site, this time for the City's expanding financial community. Obtaining planning permission was an epic in itself, dealing with 30 pressure groups and lending off some sharp contributions by the Prince of Wales on prospective designs. Parliament has held the whip hand since then, chewing over a special bill necessary to replace the market.

In the meantime, the goalsposts have been moved. Gone

are the big dealing floors so fashionable when the scheme was first proposed, so plans are likely to be changed to suit the needs of professional groups and perhaps boost the amount of shopping. The City is also set to be engulfed in a tidal wave of new office space round about the time Spitalfields should be coming on stream in the 1990s. But Mr Chris Lewis has no truck with the doom-mongers. Banking groups will be back in strength by then, and the City will be benefiting from the demand generated by the 1992 unification of European markets, he says.

Stock exchange analysts tend to be less optimistic. They are none too happy about big schemes covering similar markets and offering jam tomorrow, no matter how big the dollops. Even the lucrative profit-related return from project managing the 70,000 sq ft former Distillers House in St James's Square - expected to set new West End rent records of well over £70 a sq ft - cannot dispel all suspicions about lumpy income flow from similar markets.

L&M is already trying to dispel such doubts by diversify-

ing. Two office schemes of 50,000 and 40,000 sq ft and several business property developments have been set up in Manchester since it bought into local developer Chestergate. More partnerships could follow.

"The provinces have lagged a couple of years behind the south-east, where growth is now slowing," says Mr Lewis. "Manchester is expanding and will provide us with a springboard for long-term expansion in the north."

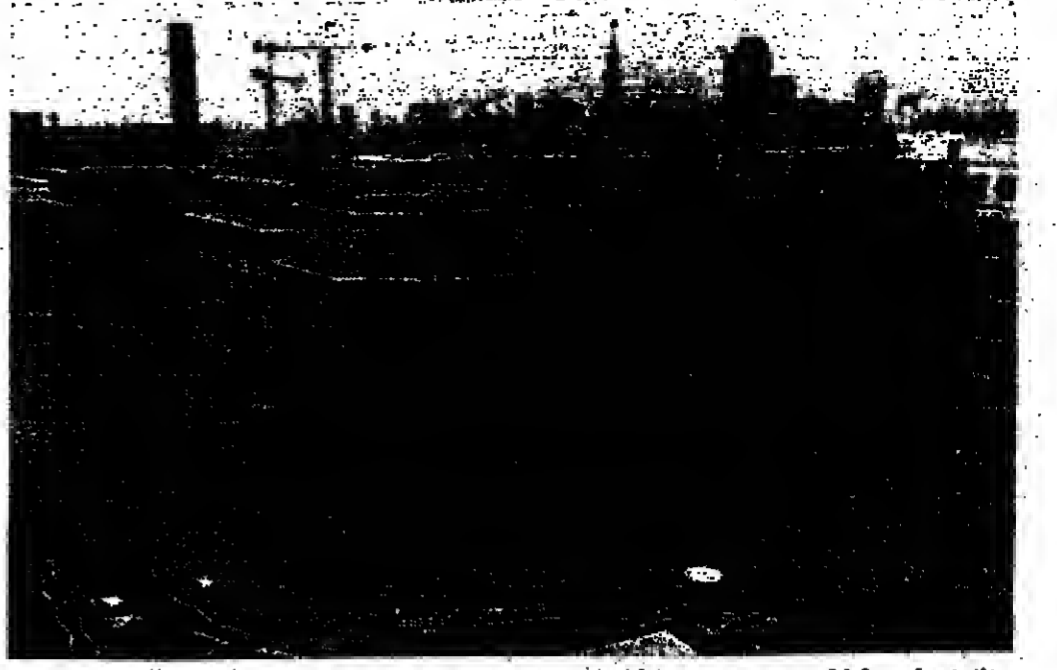
"We would like to find partners to do the same in places like Bristol and Birmingham, using their local knowledge but contributing our expertise of quality buildings."

He is convinced that high-specification offices, often dismissed by provincial developers, will be needed outside the south-east as tenants such as accountants demand better conditions and investors then raise their requirements.

This spreading of risk is also taking L&M into smaller schemes. The company has paid £1.5m for a site on West George Street and West Campbell Street in Glasgow to develop 13,000 sq ft. Gaps in the supply pipeline for this size of development also make some south-eastern schemes attractive.

L&M has recently beat off six competitors to pay £6.7m for a site to develop 15,000 sq ft in John Adam Street behind the Strand, where the Charing Cross redevelopment is helping to boost an area where top rents are already booming. Mr Lewis also sees tenants ripping out into fringe areas such as Smithfield, where L&M picked up a site in St John Street for 24.7m and has consent for 25,000 sq ft.

Bracken House: outsiders like the Japanese tend to buy "lumpy" buildings and take a long view



Uncertainty in the City

Continued from Page 3 for future acquisitions.

Armageddon is not around the corner, however. The financial background is far more sturdy than the rickety edifice which crumbled in 1974, and both Kleinwort and BZW emphasises that most pressure will be felt by owners of older space as tenants exercise their power to choose the best. However, "old" can mean space built only five years ago.

Even APR, source of the chief bear's ammunition, feels that the City will not turn into a ghost town. "We are confident that all the office space currently being built will let," it says. "There is very little likelihood of buildings staying empty in the same way as Centre Point in the 1970s."

Demand is strong, but occupiers are hiding their time and becoming more choosy.

The sting in the tail is that substantial incentives such as rent-free periods and reverse premiums which may not show up on the published rental graph will be needed to attract these elusive tenants. But on the positive side, this will lead to a massive opportunity for into refurbishing as tenants move out of older blocks and demand for creating new buildings slows.

Such developments will not yield the £26-£70 a sq ft now seen as the peak for prime

space, however. "Car buyers want Cortinas as well as Jaguars and the same thing applies to buildings," says Geoff Marsh, managing director of APR. "Landlords will have to remember that they can't charge the price of a Jaguar for a Cortina." The bulls are not easily giving up their confidence in the Jaguar market.

Jones Lang Wootton has seen a revival already this year with supply easing by 1m sq ft to 7.5m as schemes are postponed. Fellow agents Hillier Parker points out that judgments should be made on buildings coming out of the ground, not on potential planned space. Demand figures are also looking better, according to the bulls, with JLV reporting a 1m sq ft increase to 5.5m in the first three months of the year.

Agents also have a secret weapon when critics get too uppity. Unlike analysts in their ivory towers, they claim to know about hidden demand from unofficial inquiries. For instance, JLV insists that potential requirements are closer to 10m sq ft and some 35 companies are in the market for buildings of more than 150,000 sq ft over the next three years. Hillier Parker points out that there are only five schemes in the whole of central London of more than 200,000 sq ft and at least twice

that number of tenants looking for such giants.

The weakness of this argument is that potential demand ought to be treated as suspiciously as planned supply. In the long run, however, the bulls may have a stronger case. Looking to the mid-1990s, Richard Ellis and consultants Hywel Jones foresaw an extra 70,000 people working in the City because of expansion and new users moving in. The 9m sq ft they will need could be tripled by a multiplier effect of accommodation upgrading, boosting take-up to around the 26.5m sq ft that Baker Harris Saunders figures is planned for the City.

The figures look horrific, but Richard Ellis says that a low much was absorbed between 1980-87. And before anyone raises the spectre of post-crash blues, Hillier Parker points out that London is still up with New York and Tokyo as one of the big three financial centres, but a mere village by comparison. The US centre holds 300m sq ft of offices, Tokyo boasts 400m sq ft but the whole of central London is still hovering around 160m sq ft. Deciding whether to be a bull or a bear seems to be a matter of how far you look ahead.

The stock market wants a few dollops of jam today

This size of development can be easily held within the group's own investment portfolio, and as a newish company it is keen to expand its asset holdings. Giants may occupy a key role in the thinking of L&M, which appears to have few fears about biting off more than it can chew. But it recognises that the stock market wants a few dollops of jam today rather than the promise of great jars of the stuff tomorrow.

David Lawson

David Lawson

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FINANCIAL TIMES SURVEY

Members of the Netherlands banking and finance communities have joined forces in a determined bid to make Amsterdam a leading financial centre, but competitive pressures are mounting at home and abroad, as Laura Raun reports here.

Blueprint for united action

AMONG THE European cities aiming to become international financial centres in the run-up to the genuine Common Market, few are actually doing more than Amsterdam.

Banks and other members of the financial community have banded together in an unprecedented show of unity, launching a campaign to make Amsterdam the "Financial Gateway to Continental Europe." It is a blueprint for action, designed to carve out international market niches and ensure that Amsterdam remains the premier centre for Dutch Guilder paper.

"We have a commitment to proceed with deregulation and liberalisation," explains Mr Onno Ruding, Finance Minister in the Netherlands' current caretaker Government. "There, we can match the situation anywhere on the continent."

The Christian Democrat-Liberal Government of Prime Minister Ruud Lubbers collapsed last month over a sweeping environmental clean-up plan, but stays in office until elections on September 6. Amsterdam's ambitious efforts are almost certain to go ahead regardless of the election outcome.

The Dutch initiative harkens back to the "golden" 17th

century when Dutch financial institutions provided models for the London Stock Exchange, Bank of England and gilt-edged securities.

By the 18th century foreign loans were paralled up and traded in Amsterdam, which was a crossroads for international shipping and trade.

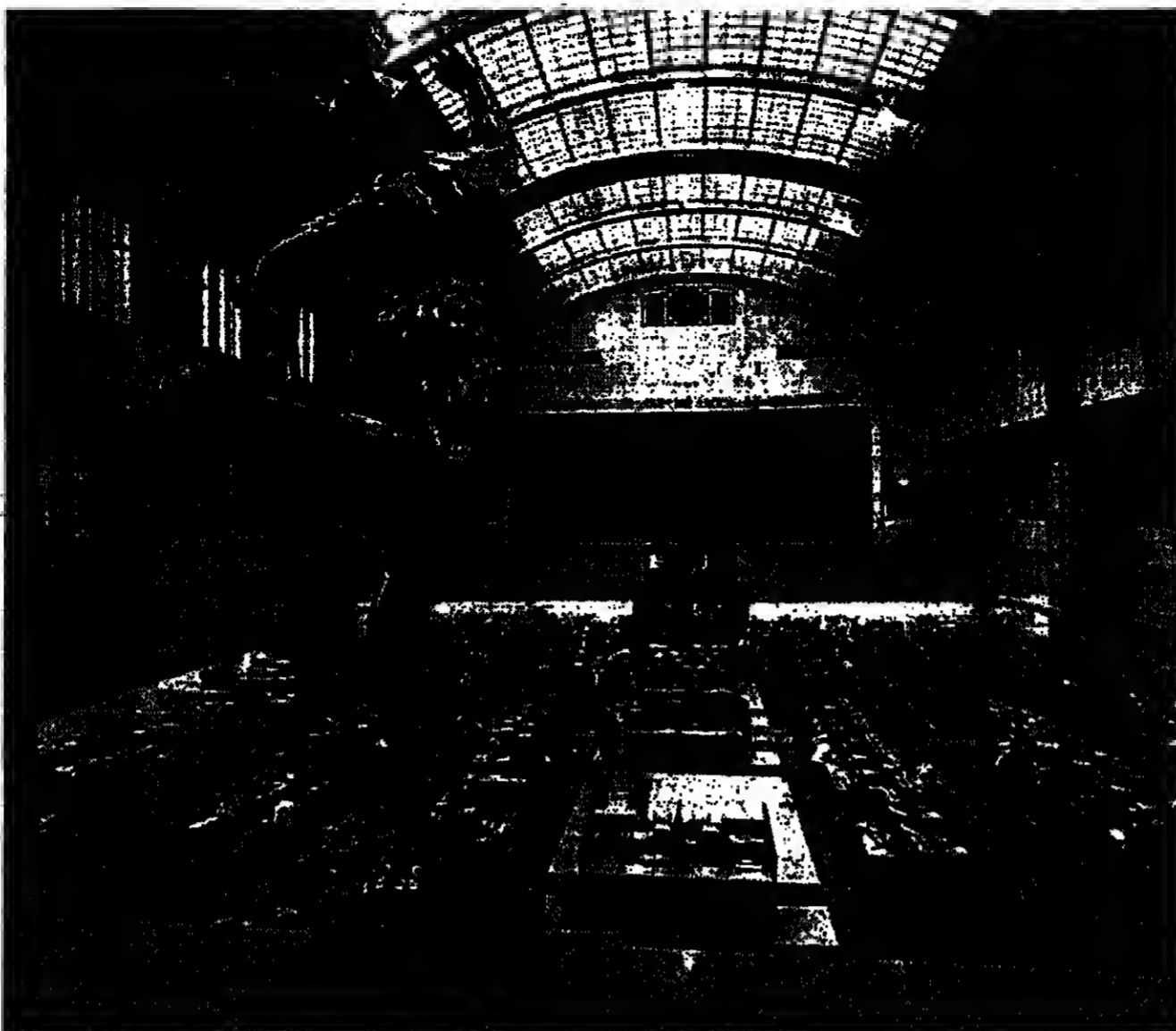
Today, a barrier-free Europe promises to transform the Netherlands' small home market into a big, international one. The Dutch, with a long tradition in trading, are loudly touting their record of free-trade, unencumbered by excessive bureaucracy. This free-wheeling atmosphere is sharply contrasted with growing regulation in London and worries of dirigist tendencies in the European Community.

In spite of the promising outlook - as highlighted by the Cecchini Report on economic implications of European integration, discussed elsewhere in this survey - some threatening trends are developing. Foreign financial institutions have flouted the gentlemanly rules of conduct that once prevailed. Cosy banking cartels are crumbling under the European Commission's assault.

Mergers are sweeping through the banking and insurance world as legal barriers

between them come tumbling down. Last year's celebrated alliance between Amsterdam, Rotterdam Bank and Generale Bank of Belgium was followed this year by NMB Bank and Postbank. Verenigde Spaarbank, the biggest savings bank, plans to merge with Amey, the third-largest insurer, heralding the financial supermarket of the future. Savings banks are forging cross-holder co-operative agreements with counterparts around Europe.

The area of electronic banking threatens to be one of the bloodiest battlefields of the



Amsterdam Stock Exchange: a record year.

NETHERLANDS FINANCE AND INVESTMENT

next decade. Dutch bankers are finally starting to catch up in technology, just as customers are demanding more convenience, cheaper services and higher yields on their money.

Hostile takeovers have yet to seriously invade the Netherlands because of companies' notoriously effective anti-takeover defences. But bracing for the worst, industrialists are adding fresh layers of protection to their already ample arsenals.

The Amsterdam Stock Exchange is still trying to prod listed companies into curbing

excessive use of these defences. But it increasingly looks as though ultimate pressure will have to come from Brussels.

Indeed, European Community directives are cutting across the Dutch financial landscape in several important areas. Mergers and acquisitions (M&A's), anti-takeover defences and insider trading have been regulated through gentlemanly persuasion rather than legal constraints.

The Hague is bringing Dutch law generally into line with the directives, but Mr Ruding is publicly warning of over-regu-

lation from Brussels. Meanwhile, Dutch companies are adding fresh layers of anti-takeover defences - permanent corporate structures which virtually prevent hostile bidders from gaining control - and corporate raiders can build up share stakes without public announcement.

A rare sense of urgency has gripped the Dutch following the realisation that huge amounts of business in guilder paper is being siphoned off by London.

Greater liquidity and transparency in London are drawing

half of all dealings in Dutch Government bonds and an unknown portion of Dutch equity. This has forced the Amsterdam Stock Exchange - like its counterparts in London, New York and Tokyo - to fine-tune the market mechanism, as discussed further in the article on the Stock Exchange.

No less urgent is the realisation that financial services must be played as a trump card in the 1992 game. The Dutch economy relies much more heavily on services than on industry.

The country's banking and insurance sectors were cited by the influential Cecchini Report on European integration as being highly competitive. A Dutch government study echoed its findings.



Mr Onno Ruding, Finance Minister: taking a tough line.

- IN THIS SURVEY**
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- Editorial production: Michael Wiltshire.

level because then there is competition," explains Mr Steinhauser. "All 23 recommendations are in their common interest. One to two years is short enough to keep up the spirit, dedication and enthusiasm."

Swift steps have already been taken since the plan was unveiled in March. The Amsterdam Bourse announced plans to introduce a fixed settlement date in line with Euro-market practices to replace the floating system.

A special task force on recouping government bond business has issued its report. Most significantly it recommends replacement of the secret order book system with an open system. An open book of prices and quantities would foster transparency and competition among market makers, explains Mr G.H.de Marez Oyens, a Bourse director.

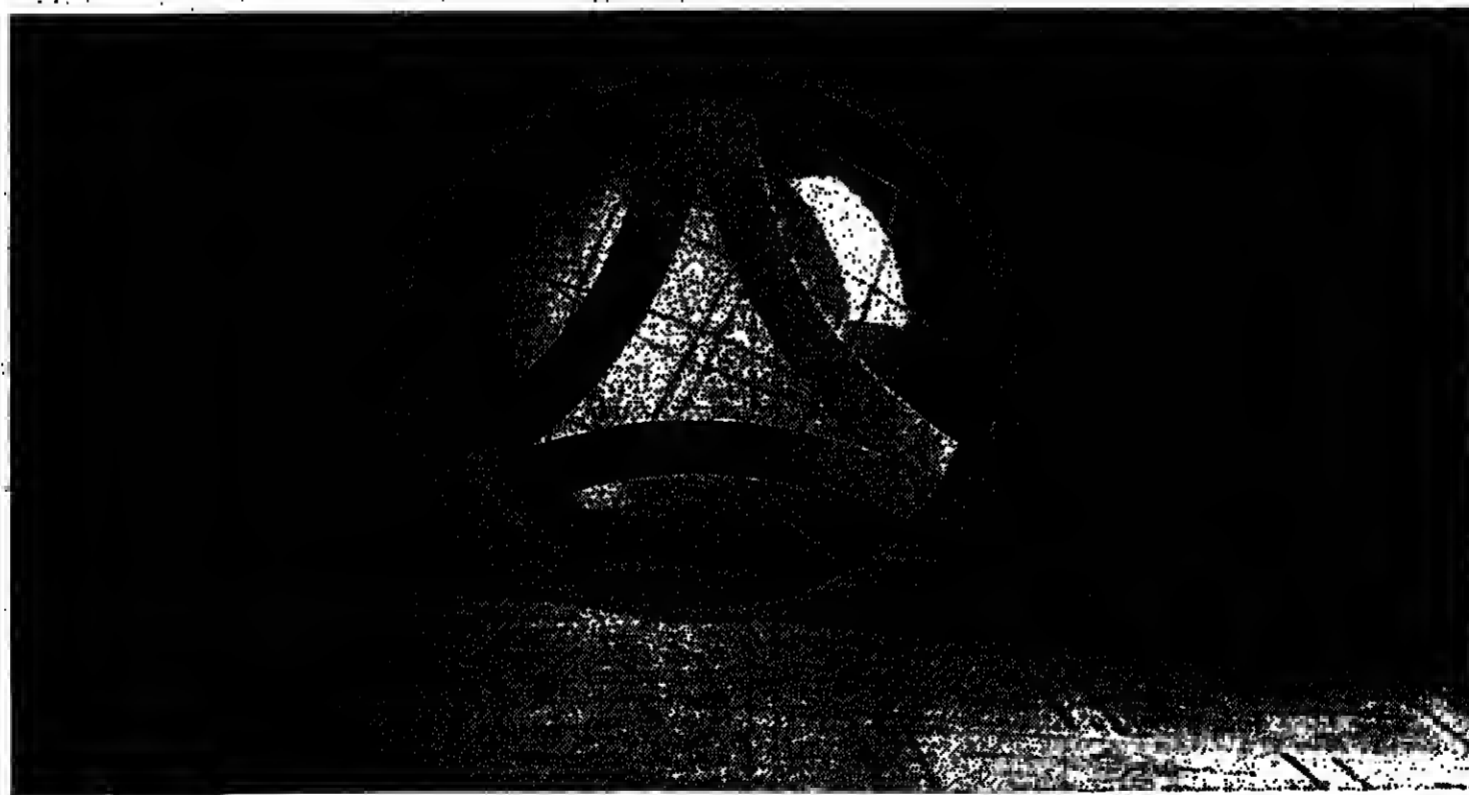
"The tempo (of trade) will be accelerated because you can look at the screen and determine whether you want to deal," he adds.

Nevertheless, Amsterdam remains firmly committed to its central market, auction concept in which trade is driven by orders. London's mixed experience with a quote-driven, direct-dealing system has only strengthened Amsterdam's conviction that it is right.

Under the "Gateway Plan," financial-market mechanisms overall must be improved so

Continued on page 2

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NETHERLANDS FINANCE-2

Banking sector's vision for European "Financial Gateway"

Unprecedented show of unity

NOTHING unites enemies more than having a common enemy and that is certainly true of Dutch bankers. Foreign competition has compelled them to join forces in an unprecedented show of unity, waging a concerted campaign to make Amsterdam the "Financial Gateway to Continental Europe". They are merging to strengthen resources ahead of Europe's genuine common market after 1992.

A new Dutch Association of Bankers has been created to bring under one roof the various sectors which previously had their own separate and often opposing associations. "If we don't move on a broad basis it isn't enough," warns Mr Roelof Nelissen, chairman of Amsterdam-Rotterdam Bank and a driving force behind both the "Financial Gateway" plan and new the Bankers' Association. He admits that the alignment was difficult but "we succeeded in creating a sense of urgency".

Dutch banks get relatively high marks from the European Community's Cecchini Report on the economic consequences of a barrier-free Europe. Those kudos for efficiency, competitive pricing and free capital flows are broadly reflected in a similar report by the Dutch Government's Central Plan Bureau.

But banks are being shaken to their very roots by globalisation of markets, fresh players,

Banking sector



new rules and stagnating businesses. Retail banking, where the market is heavily saturated, could witness some of the most radical changes in the next decade.

Profit margins are shrinking under the weight of foreign competition and new playing fields are opening up. Cosy, gentlemanly cartels are under assault from the EC in Brussels.

The financial supermarket is on the horizon as distinctions blur between commercial, savings, co-operative and mortgage banks. Likewise, the lines between banking and insurance are crumbling amid liberalisation of the Dutch law separating the two activities.

Verenigde Spaarbank, The Netherlands' largest savings bank, has forged an alliance with Amev, the number three

insurance company, aimed at an eventual merger. Banks can invest no more than 5 per cent of their equity in other companies (banks excepted) but this ban is expected to be dropped by next year in conformity with practices abroad.

Verenigde/Amev follows last year's highly publicised, cross-border alliance between Amsterdam-Rotterdam Bank and Générale Bank of Belgium. Savings banks in The Netherlands and Belgium have agreed a sweeping accord that aims to harmonise their activities, following similar bilateral pacts elsewhere in Europe.

NMB Bank, a commercial bank, and Postbank, the state-owned bank, will combine to create the fourth largest bank in the country. Rabobank, the big co-operative bank, increasingly acts like a commercial

bank - setting up a new merchant banking division last year. Collective profits of the new "clover leaf" of top banks (ABN, Amro, Raba and NMB/Postbank) rose a healthy 19.5 per cent in 1988, thanks to buoyant lending and a stock-market recovery. But the outlook for this year is distinctly more cautious.

Perhaps the most visible trend is the rise of merchant banking, fuelled by privatisation and international equity issues. The tradition of raising capital for companies and financial engineering is less developed than in the UK and US but demand for these services is burgeoning.

A pitched battle broke out last year when the fee structure for underwriting corporate bonds was turned upside down by Credit Suisse-First Boston and Swiss Bank Corporation.

Competition has accelerated with this year's privatisation of DSM, the Dutch state-owned chemicals company. Foreign bankers were brought in to advise both DSM and the government but Amro won the mandate for global co-ordinator.

Two big international equity issues have followed - DAF and Pirelli - and Amro snatched up more business. ABN has sought to fight back with some sharply priced issues of its own but has had its fingers burned, according to one Amsterdam banker.

"Margins are pepper thin today," complains Mr Joseph Krant, managing director of Kempen & Co, a leading Dutch brokerage firm.

However, the next big battle is shaping up in retail banking. Dutch bankers have lagged behind many abroad in shifting their attention away from product marketing and toward service marketing. "The retail sector has been so overhyped for so long that product differentiation has lost much of its competitive edge. But banks have been a bit slow to recognise the opportunities in catering to customers."

Until recently private clients have been viewed as a mass market with a "herd mentality". But now they are being seen as differentiated markets, segmented by income, lifestyle and sophistication. Electronic banking is the single most important weapon in the retail

battle. "The first efforts of an emphatically customer-oriented marketing strategy can now be detected within the Dutch banking community," observed Mr H.K. Verkoren, a board member of Postbank, during a recent seminar. "Modern technology can be a helpful instrument in achieving the necessary mass - and still individual - 'relations-marketing' that will replace product marketing in the future."

Here the Nederlandsche Bank, the Dutch Central Bank, offered advice in its 1988 annual report. Banks were urged to boost their profitability because of an historically low 0.63 per cent ratio of income to total assets.

Mr Wim Duisenberg, president of the Nederlandsche Bank, advised banks to assign risk more precisely to activities and avoid cross-subsidisation. This was particularly true in the loss-ridden payments clearing system and in emerging electronic banking services, he added.

Banks should continue to fortify their share capital if they want to maintain their internationally strong position, noted Mr Duisenberg, who is also head of the Bank for International Settlements. But he was gratified that they meet the Basle Accord capital requirements agreed by the Group of 10 top western countries and intended to take effect by the end of 1992.

In general Dutch bankers are confident of their ability to compete in the genuine market. Mr Verkoren concluded: "There is little need for fear in retail banking/product marketing of accelerating competition from foreign financial institutions after January 1, 1993 other than central (separate from 1993) takeovers."

Laura Raun



Hoping for a third term

DUTCH Prime Minister, Mr Ruud Lubbers, left, looks relaxed as he is driven to the palace of Queen Beatrix in the Hague to tender his resignation.

Mr Lubbers and his Cabinet offered to resign after failing to win support in May from their Liberal junior coalition partner on a controversial environment legislation package. The Christian Democrat-Liberal Government will stay in office until elections on September 6.

Meanwhile, Amsterdam's ambitious efforts to become "the Financial Gateway" into Continental Europe are almost certain to go ahead - regardless of the election outcome.

SHORT-TERM PROSPECTS - demand and output

	Current prices		Per cent changes, 1980 prices			
	1987	1987	1987	1988	1988	1989
Private consumption	263.0	59.9	3.0	2.1	3.0	3.0
Public consumption	69.7	17.8	1.1	-0.1	0.1	0.0
Gross fixed investment	87.7	21.1	1.5	7.9	5.5	1.1
Residential	22.5	5.5	3.0	12.0	2.0	-4.0
Other private	55.1	13.2	1.6	7.1	8.0	2.9
Public	10.0	2.4	-2.7	2.9	0.9	5.7
Final domestic demand	420.2	98.8	2.3	2.9	3.0	2.1
Stockbuilding ¹	-0.4	-0.1	-0.2	-0.4	0.7	0.2
Total domestic demand	419.8	98.7	2.1	2.5	3.8	2.3
Exports of goods and services	226.6	60.7	4.3	7.5	5.7	5.8
Imports of goods and services	214.8	59.4	5.8	7.3	8.7	4.5
Foreign balance ¹	12.0	1.5	-0.6	0.2	-0.5	0.9
GDP	431.8	100.0	1.4	2.7	3.2	3.1

¹ Change measured as percentage of previous period GDP.

	Per cent changes			
	1987	1988	1989	1990
Consumer price deflator	-0.3	0.6	1.5	2.3
Savings ratio ²	-2.2	2.0	1.7	1.7
Total employment	1.2	1.0	1.2	1.2
Unemployment rate ³	6.7	6.3	6.1	7.6
Net lending general government (per cent GDP) ⁴	-5.1	-5.2	-4.4	-4.0
Export markets, manufactures	7.3	10.6	6.1	7.8
Current balance (Gld billion)	5.9	10.5	6.5	6.6
Current balance (per cent GDP) ⁴	1.4	2.3	1.4	1.9

² Excluding savings via life insurance companies and pension funds.

³ Lower.

⁴ Person-years.

⁵ Per cent total labour force.

Source: CBS, Nationaal Rekeningen, 1987; CPB, Centraal Economisch Plan, 1988 and OECD Secretariat estimates.

Linking arms to compete

Continued from page 1 there is a level playing field within the Dutch markets and in comparison to those abroad. For example, banks are urged to make markets more actively and transaction costs are supposed to be trimmed by scrapping the stamp duty.

Amsterdam's attractiveness is supposed to be enhanced by enlarging the pool of financial specialists, boosting salaries and building more luxury housing.

Despite all the anguished calls for improvements, Dutchmen have reason to be optimistic. The Netherlands has recognised expertise in international trade finance and venture capital. Big international equity

offerings, such as DSM and DAF, have succeeded grandly, raising record amounts of money and widening share ownership in the Netherlands.

Pirelli Tyre of Italy chose to launch its recent international equity offer and list the shares in Amsterdam instead of London. The Netherlands' favourable tax climate was decisive, but so was Dutch investors' willingness to "buy foreign" and relatively simple listing procedures compared to other European bourses.

Dutch bankers are generally confident. They point to a long history of open competition against foreigners, a liberal regulatory environment, a strong currency and stable

economy.

The Netherlands Institute for the Banking and Securities Industry chose retail banking as the theme for its annual seminar last month. Mr H.K. Verkoren, a member of Postbank's board of management, asserted that Dutch banks were well-positioned because of relatively low margins and planned investments in technology. He added that culture, products and expectations still differed widely across Europe.

"It seems less than obvious that the Dutch consumer will immediately and en masse start banking with an Italian company after 1993, or the other way around," he observed.

Advances in electronic banking
Technology battle hots up in bid to cut costs

ELECTRONIC banking has opened up a fresh battlefield where until now Dutch banks have feared to tread.

Hot the demands of retail banking, the need to cut overall costs and competition from other market players have forced banks to enter the fray. The crucial battle will in years to come determine the infrastructure and pricing of electronic banking.

"The private bank client increasingly wants to do more himself, and the bank must reduce the costs of simple transactions," according to Mr H.K. Verkoren, a member of the Postbank management board. "Therefore, 'technology' will be the most important factor to determine the further development in retail banking."

Dutch bankers have lagged behind most others in western Europe in electronic banking. They have snuggly called their giro clearing system one of the most efficient in the world, yet it collectively loses F100m a year.

New technology often costs more than it is worth in the first generation and learning from others' mistakes would be wiser, they argued.

Privately, they admit having badly underestimated consumers' desire for automated tellers' machines (ATMs), point-of-sale (POS) terminals and home-bank terminals. Customers queue up by the dozen to use ATMs.

Regardless of the merits of the arguments, however, bankers now recognise the promising role of electronic banking in product and service distribution. "The quality of electronic infrastructure will be an important factor in the success of qualitative growth," Mr Verkoren told the recent annual seminar of the Netherlands Institute for the Bank and Securities Industry.

Corporate clients were the first to benefit from electronic funds transfers (EFT) services. Businesses linked their computers to those of banks to speed up payments transfers and to manage cash positions electronically.

Meanwhile credit card companies, retailers and insurers saw that private clients also wanted easier and cheaper ways of banking. These new players sought to fill the gaps, unleashing a flood of gadgets and cards - credit, debit and chip - from banks and other companies.

Around 1,500 ATM's are now dotted about the country and that could jump to 2,500 by the end of the year. POS terminals number about 1,500.

About 8m bank cards - more than half the population - are in circulation. But Dutchmen carry only 500,000 credit cards because banks

have adamantly opposed them. Algemene Bank Nederland recently became the first commercial bank to introduce its own credit card. Consequently, private label cards are proliferating.

Chip cards are in their infancy as debate rages over the safety features as opposed to magnetic-stripe cards. In October a F10m experiment

standards are so stiff that the costs of equipment and services are higher, according to Mr R.J. Kolijn of Beantet, the new electronic network established jointly by the banks.

Two reasons are cited. Plastic cards are distributed en masse because in the egalitarian Netherlands banks cannot screen out bad risks.

"Here everyone, including welfare recipients, can get a card," Mr Kolijn explains. "The banks want the system to be as secure as a cheque because POS transactions are viewed as guaranteed payments."

The second reason is an obsession with secrecy that dates back to the Second World War, when meticulous public records allowed the Nazis to find many Jews. Since then the Dutch have been extremely sensitive about efforts to collect personal data from private individuals.

Now the urgent question is who will provide a secure infrastructure that is still affordable for banks, consumers and retailers. Negotiations are underway between the three groups to reach a consensus although some agreements have already been reached.

Consumers are liable for the

first F150 of losses due to lost and stolen cards and identification numbers and the banks for the next F1750.

Broadly speaking banks will probably bear about one-quarter of the financial burden and retailers and consumers three-quarters, according to Mr Kolijn.

Mr Hans Kiers, of Computercentrum van de Velden, claims his computer firm can process payments electronically for 7 Dutch cents a transaction, or one-seventh the cost of Beantet. Van de Velden is trying to establish an electronic network to compete with Beantet, arguing that a monopoly will result in higher prices.

But Beantet banks retort that only through economies of scale can a small country like The Netherlands offer affordable electronic banking. Beantet claims that for processing credit card bills it charges retailers F17.50 per transaction and 2.5 per cent of the purchase.

What is clear is that the battle in electronic banking has only just begun. With the approach of a barrier-free Europe it can only escalate.

Laura Raun

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NETHERLANDS FINANCE-3

Profile: Onno Ruding, Finance Minister

On the hustings

MR ONNO RUDING will go down in history as the hard-line Dutch Finance Minister who disciplined the Netherlands' tax finances. The two-term Finance Minister was seen by many as ready to stand down and return to the private sector with a justified sense of accomplishment. But now Mr Ruding is talking like an actively campaigning politician who wants a fresh mandate to serve the public.

"My preference is to continue the present coalition - and then you are sure of a continuation of the present policies," he explained during a recent interview in his city office, overlooking The Hague's Malieveld. "I would not exclude any new team, including one with the Socialists. But we know the present policies are successful."

Mr Ruding is, in fact, on the hustings, as are all of his colleagues in the Christian Democrat-Liberal Government of Prime Minister Ruud Lubbers. Early general elections will be held on September 6, following the centre-right coalition's collapse over an ambitious environmental plan.

Mr Lubbers' policies have been designed to slash the spring government budget deficit, shrink the huge public sector and fortify the private sector. Mr Ruding, a centrist Christian Democrat, has been the driving force behind the austerity policies pursued since 1982. As keeper of the state purse strings, he has ceaselessly insisted on budget discipline even as other cabinet ministers overspent.

Mr Ruding became the seppiest of Lubberian policies. But he notes with more than a hint of satisfaction that he is now one of the most popular politicians in the Netherlands.

"I rank very big in the polls," he says proudly. "I think that comes from the criticism and shows that my convictions are shared by the people in the street."

Last April, however, the Finance Minister's patience wore thin and he threatened to resign unless other ministers reined in runaway spending in their budgets.

The Liberal Party, junior partners in the governing coalition, saved him the

trouble of resigning by bringing down the Government on May 2. There has been wide speculation that Mr Ruding would return to Amsterdam-Rotterdam Bank, where he worked before entering public office. Meanwhile, he insists that he has "no time to think about the future."

The 48-year-old Mr Ruding is the epitome of Calvinist sobriety. He is as intelligent and articulate as he is hard-working, determined and stoic. Political cartoonists depict him as a stereotypical book-keeper with oversized spectacles.

He began his career at the Finance Ministry in 1968 and later moved to Amro, the country's third largest bank, where he became managing director. In 1977, he was appointed executive director

Interview by Laura Raun

of the International Monetary Fund and worked in Washington D.C. until 1980, when he returned to Amro. Two years later he joined the first Lubbers Administration.

Living in Washington had ignited a passion for international banking that, at times, has contrasted sharply with apparent boredom with Dutch politics. In the past, he has chaired the board of governors of the Asian Development Bank and European Investment Bank, as well as headed the Group of 10 industrialised countries.

Now Mr Ruding is chairman of the IMF's interim Committee, its policy-making arm, and thus is closely involved in Third World Debt problems.

He will chair the autumn meeting of the Interim Committee, since no new Dutch government is expected to be installed by then. In preparation for the meeting, Mr Ruding will meet with Mr Michel Camdessus, managing director of the IMF, and Mr Barber Conable, head of the World Bank, at the beginning of July.

Eventually, it was Mr Camdessus' job that Mr Ruding wanted so much, three years ago - perhaps more than any

other position. The determined Dutchman lobbied hard, maybe too hard, but was opposed by some indebted countries which feared his strict policies. After this disappointment, Mr Ruding eventually bounced back and has taken a leading role in the question of the IMF's role in debt reduction. He argues for caution.

"If greater involvement of the IMF or World Bank would lead to an indirect bailing-out of commercial banks, we would enter dangerous ground," he has warned. "The IMF must also observe other objectives, such as maintaining liquidity of the institution."

An economist with a doctorate from Erasmus University, Mr Ruding also chairs the Inter-American Development Bank (IADB).

In the European Community, Mr Ruding is an outspoken proponent of free capital flows and tax harmonisation, but insists on a pragmatic approach to economic and monetary union. Recently he tried again to persuade Mrs Margaret Thatcher, the British Prime Minister, of the merits in bringing Sterling fully into the European Monetary System.

"I am well-known for making my arguments explicitly," he admits. "Whether they were convincing, I don't know."

Mr Ruding hopes that a single European currency and central bank can be achieved by 2000, but stresses that practical steps must come first. For example, France and Italy must end all capital controls by July 1, 1990.

"This is a hint to my French friends," cautions Mr Ruding. "It is a test of their commitment-honouring their capital liberalisation commitment." If they fulfil that promise then pressure on Britain will increase he reasons.

If Britain still refuses to join the exchange rate mechanism, then momentum for a two-speed Europe will gather pace, he believes. "In principle, we have the two-speed syndrome," he concedes.

Mr Ruding would have to give up his international posts if he returns to the private sector - but given his sense of noble obligation, he seems more likely to stay in public service.

BUSINESS is booming at the Amsterdam Bourse. The Stock Exchange has enjoyed the two biggest stock flotations in history and the first quotation of a foreign company in Dutch Guilders during the past half year. Another big privatisation is on the way and signs are that "people's capitalism" is making headway, albeit slowly.

But members of the financial community - like Dutch housewives who scrub even when there is no dirt - are seeking perfection. They are determined that Amsterdam compete with the leading financial centres of the world - and nothing less will do.

The largest share flotation was the FL15bn privatisation of one-third of DSM, the state-owned chemicals company, in January. That was followed by the FL65bn flotation of 60 per cent of DAF, the truck maker, in May. Earlier this month, Pirelli Tyre, the highly successful Italian tyre maker, announced plans to float 20 per cent of its shares on the Amsterdam Bourse, quoted in guilders.

Devaluing these flotations has been the spread of share ownership among small investors. This Spring, nearly 15 per cent of Dutch households owned equity compared with 12 per cent in 1988.

Pirelli Tyre said one of the reasons it chose Amsterdam instead of London was the willingness of Dutch investors to buy foreign stock. About one-fifth of small Dutch investors hold foreign shares.

More is yet to come. Another one-third tranche of DSM will be privatised in September. The planned privatisation of NMB/Postbank may be more subject to political vagaries. Despite the obvious successes, Amsterdam - like London - is engaging in much soul-searching about its trading system.

Amsterdam has plumped for an order-driven auction system in which all bids and offers flow together to create the "best price". The Dutch argue they actually have the best of both worlds because the Amsterdam Inter-professional Market (AIM) was introduced two years ago.

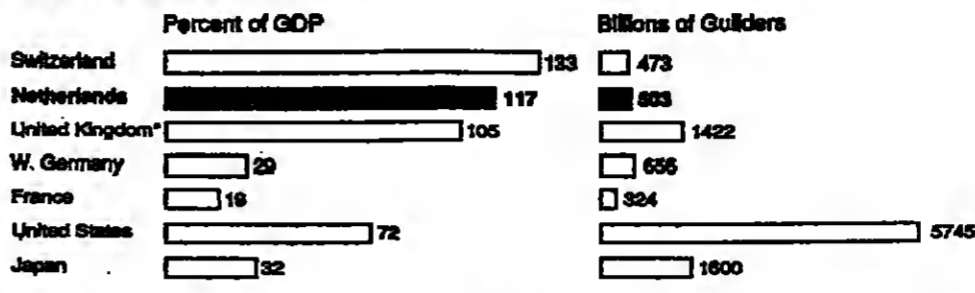
AIM is a bio-trade system in which banks and brokers on one hand, can deal directly with institutional investors on the other hand - bypassing

Record year for the Amsterdam Bourse

Debate over the trading system

Capital of Institutional Investors*

Comparisons with seven countries



* Pension funds and insurance companies. Source: OECD; Inhouse Research Corporation; De Nederlandsche Bank, 1987



Amsterdam has plumped for an order-driven auction system.

the *hoekman* (jobber). Trades must be larger than FL1m in equity and FL15m in bonds and prices must be reported back promptly to the trading floor to maintain the link with the "best price."

This is in contrast to London's quote-driven system in which exchange members deal directly with each other on the basis of electronically-posted quotes. Baron Boedewijn van Iersum, chairman of the Amsterdam Stock Exchange, staunchly defends the concept of a central trading floor against claims that it is sluggish and old-fashioned. He firmly believes that people need to physically congregate to buy and sell.

"We feel - and I don't know whether this is true in London - that to absorb all the information one should be on a central floor," he explains in his wood-paneled office in the exchange building. "All orders should come together and be dealt with equally."

But soul-searching is evident in the seminal report, "Amsterdam: Financial Gateway to Continental Europe." The report has 24 broad-ranging

recommendations for improving Amsterdam's financial markets and attractiveness as a place to set up business. The action plan, unveiled in March, recommended that several task forces study ways of improving liquidity and transparency on the Bourse. The task force on bond trading was first to issue its report, reflecting near panic about recouping business lost to London. It is believed that up to half of all deals in Dutch government bonds go through London, twice the amount of two years ago.

"In the market, the impression exists that in Amsterdam the readiness to deal and the speed in large trades in state bonds (FL10m and above) lags behind that in London," the task force observed. "There is a difference in attitude between the Dutch and Anglo-Saxon intermediaries, through which our competitiveness is threatened, not only abroad but also in our own market."

The English/American intermediaries are in general more "sales" oriented than the Dutch," the task force continues. The panel reasons that

liquidity may be sufficient but market players believe it is lacking. The more active London approach is admired by a market-maker's attitude, which differs sharply from the Amsterdam system for dealing in state bonds," the task force admits.

The report recommends a series of measures to make Amsterdam more competitive:

- Abolition of the stamp duty to trim transaction costs.
- Fixed settlement date instead of the current floating one.
- Open order book to replace the secret one at present.
- More differentiated commissions to foster various order sizes.
- Extended trading hours.
- Publication of turnover in trades with foreign financial institutions, which are not counted now.

To set a good example, the Exchange has announced plans to introduce a fixed settlement date in conformity with Euro-market practices. Clearly rejected were direct dealing between exchange members and creation of an interdealer broker, who would "grease the

works" by acting only as agent.

Nevertheless, some task force members argued that AIM is hobbled by the obligation to link prices for bloc trades to the central price. The task force recommendations represent a victory for the *hoekman* firms, which have looked like an endangered species at times. To survive financially they have merged furiously, shrinking to 25 last year from 41 in 1987. Now the task force suggests that perhaps more are needed.

Banks, for their part in the "Gateway" plan, have promised to make markets more actively in Dutch stocks and bonds. But direct dealing is essential, bankers contend, if they are to allocate more risk-bearing capital to market-making. On another recommendation Mr Onno Ruding, the Finance Minister, has pledged to try and scrap the 0.12 per cent stamp duty on securities transactions. He probably will propose abolition in the 1990 government budget but the rest depends on the new Parliament following the September general election.

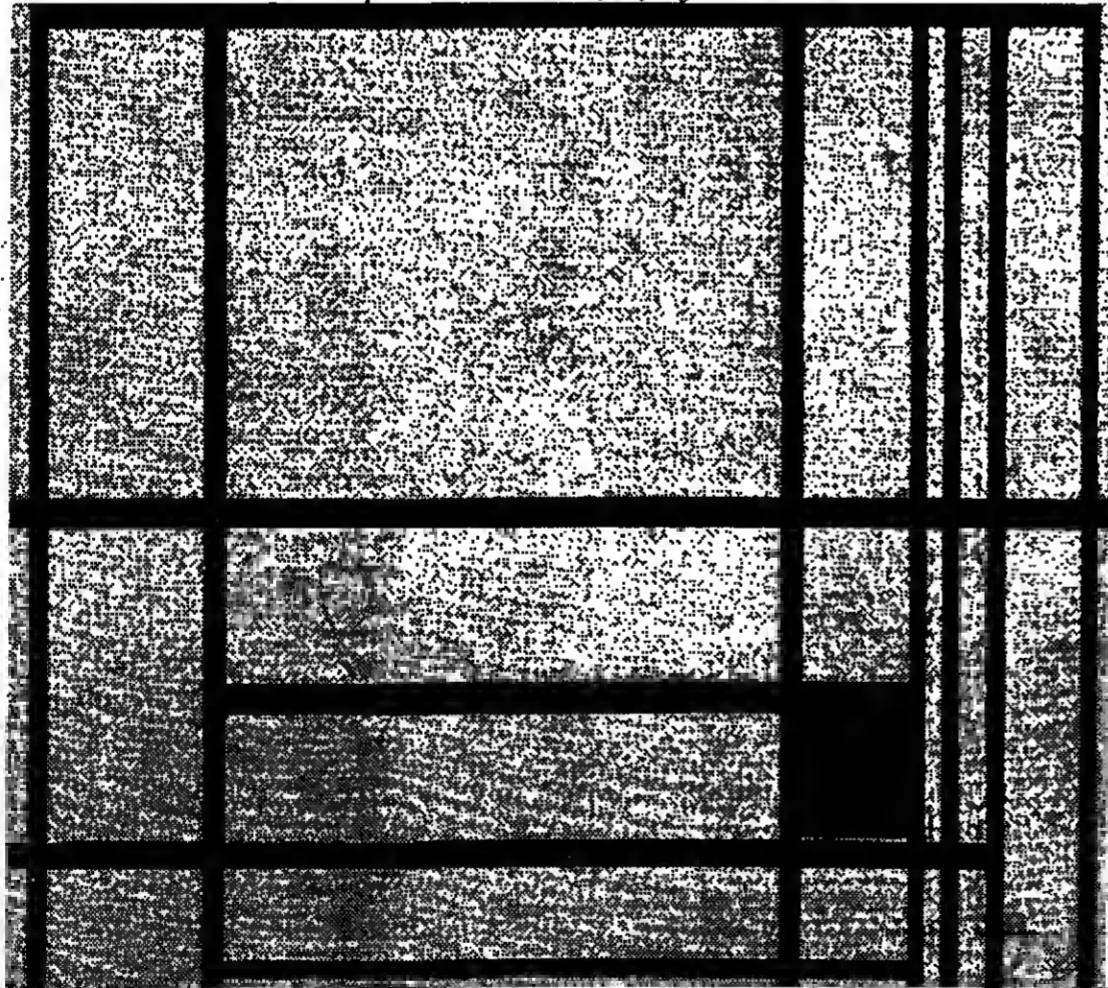
Conspicuously missing from the "Gateway" plan was any mention of Dutch companies' notoriously protective anti-takeover defences. So controversial have the defences become that the Bourse is now engaged in quiet diplomacy to try to persuade company managers that they must get in step with Europe before 1992.

Also absent from the "Gateway" blueprint for action was a plan to modernise one of the most antiquated customs on the Stock Exchange. Trading is halted for hours or days for routine announcements such as half-year figures and corporate takeovers. Such halts give small investors time to hear the news, according to the Bourse. But trading suspension tends to fuel more rumours than it lays to rest.

Careful scrutiny of the "Gateway" plan reveals that recommendations were made only where consensus could be reached among all members of the financial community. Some glaring gaps remain.

Laura Raun

Part of composition with blue. Mondrian, 1937, Hago Gemeentemuseum.



© Mondrian, 1937, Hago Gemeentemuseum.

What does this Dutch artist share with Rabobank? Clarity, strength and vision.

Mondrian's paintings are characterised by clear lines, and strong use of form and colour, based on very definite views on his art. Similarly, Rabobank has carefully developed its own vision of banking. As Dutch industry grew, so did Rabobank, building up a network of 2,200 offices to become the largest domestic bank. With one third of all Dutch companies doing business with Rabobank. Today, with total assets of US\$ 80 billion, Rabobank is one of the top 50 banks in the world, with offices in major financial centres and ports around the globe.

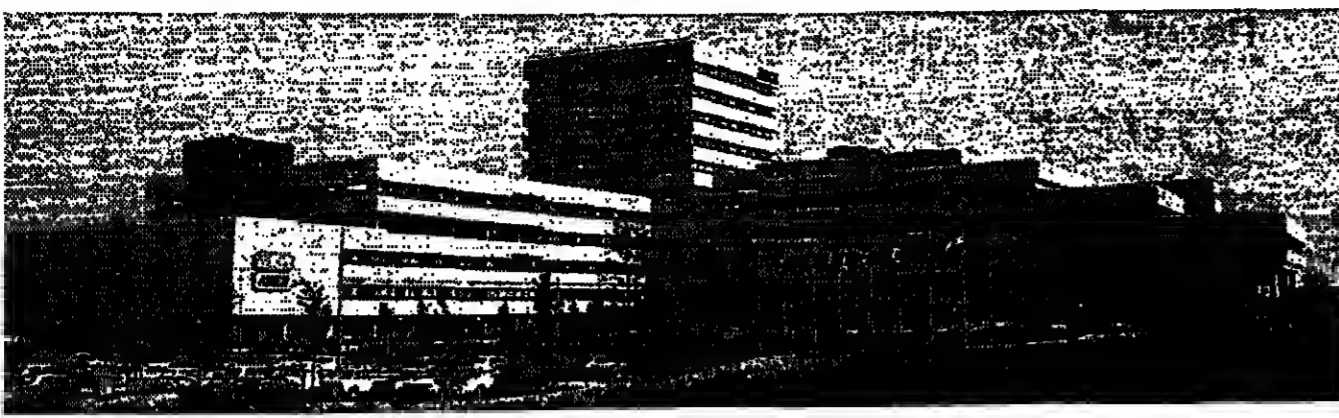
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The Art of Dutch Banking

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NETHERLANDS FINANCE-4



Amev Group headquarters: far-reaching alliance with Holland's top savings bank, Verevige Spaarbank

David Brown looks at the insurance industry

Competitive edge sharpened

HOLLAND'S competition-hardened insurers have been fast out of the gate and are positioning themselves well for the high stakes of 1992's single market in Europe. They are preparing, at home and abroad, through a broad range of mergers, takeovers and market innovations.

Perhaps the most important development was the announcement, last March, of plans by the third-ranked Amev Group to exchange a strategic shareholding of 15 per cent with the unquoted Verevige Spaarbank (VSB), Holland's top savings bank, as a prelude to a more far-reaching co-operation and even merger.

Considering the relative size of the two players, with VSB only a third as big as Amev, the agreement, if it is realised, might more aptly be seen as an effective takeover.

The move is set against a broader European trend; the progressive relaxation of the old, firm boundaries that used to separate banking and insurance. The recently unveiled "marketing pacts" between Allianz and Dresdner bank in West Germany, and between Banque Nationale de Paris and Union des Assurances de Paris in France are only some examples.

What is notable about the Amev-VSB proposal is that it goes even further than any other European "Allfinanz" scheme unveiled to date, setting the precedent of a potential full merger. This has been made possible by The Hague's plans to abolish, perhaps within a year, the regulations that have hitherto insisted the fence between the two financial preserves be retained.

Several analysts are sceptical about the promised benefits as far as Amev and VSB are concerned, pointing out that the many other Dutch banks which distribute Amev's insurance policies may not be overjoyed by this new relationship. The share swap will also modestly dilute both earnings and net assets in the short-term.

But there is a consensus the two companies are well matched in terms of their policy and account-holder base in Holland, where customers tend to be loyal in their financial relationships, and that the deal is likely to open up new business opportunities over time.

The retail market, and small and medium-sized businesses

income last year of only FL1.92bn, but strong profitability. Stad is highly rated for the flexibility and innovative outlook of its management.

In May, it announced it was on the prowl for a prospective European partner - with the idea of concluding its strategic share swap of say 10 per cent.

"We would have to see how we get along before we get married," says Mr Luck van Leeuwen, "but I would not be amazed if we saw a merger developing in some years' time." The company has not yet allowed itself to be drawn on who it might be negotiating with, or where, except to say it is outside the Benelux region.

Stad's core business is the Dutch life and non-life sector. Mr Van Leeuwen insists that, while there is certainly further scope for expansion here, a "co-operation pact" is a critical precondition if Stad is to play a European rather than strictly Benelux regional role in the EC insurance market.

Another candidate for merger might be Aegon, created in 1983 by a fusion which is now helping it achieve important cost-saving benefits. The company saw net profits advance by 15 per cent last year to FL389m on premiums of FL6.4bn. It has also expanded rapidly, at some cost to its balance sheet, but is expecting a further profits growth in 1989 despite the new business strain in the life insurance sector.

Last, but certainly not least, Nationale Nederlanden, Holland's top insurer with total revenues to FL10.2bn last year and profits of FL389m, has been leading an aggressive international charge, with an already global spread, it is con-

solidating its position in fast-growing markets and expanding in North America.

Its biggest acquisition in North America, which in total has cost some FL1.15bn since last November, was Southland Life, Commissar of Quebec and Mony (Canada). Soon afterwards, it announced plans for a one-to-one rights issue to raise about FL750m.

Holland's insurers, working on a traditionally open home market which is ranked as one of the world's top 10, have long lived with severe competition, especially in the non-life sector. The 10 largest players control more than 80 per cent of the Dutch market. Many smaller and weakened niche players may be taken over or fold in a restructuring over the coming months.

Margins in the life sector have fared reasonably well until now, helped by a strong economy and lower unemployment, but are thinning. The Eagle Star group, for example, has started to introduce even more finely-priced low-margin Universal Life products.

"If I were a Japanese insurance company looking to expand in Europe," says Stad Rotterdam's Mr Van Leeuwen, "I would look at the margins and decide to go to France, Italy or Belgium instead."

Meanwhile, all are breathing a sigh of relief about the political disaster in The Hague; it means at least a short-term reprieve from planned new taxes, and some breathing space to consider the implications of a sweeping reform of the country's health care system.

Holland's insurers have long lived with severe competition

may find there is an expanded range of services to choose from.

Meanwhile Amev, which had total revenues of FL8.5bn last year, continues to move abroad; after a spate of purchases in Hong Kong, Singapore and the UK since 1987, Mr Joop Bortelds, chairman, says: "Further acquisitions are certainly not excluded."

(Amev managed a good improvement in its life insurance profits in 1988, although there were more mixed results in the non-life sector; overall profits declined to FL276m, a picture broadly in line with expectations.)

Another company casting its eyes abroad is Stad Rotterdam. While small, with premium



The state-owned Postbank, above: merging with NMB Bank

The NMB Postbank plan
Difficult birth for a new giant

AN AMBITIOUS public-private merger plan aimed at reshaping the face of Dutch banking is moving close to reality after a troubled start. However, it still faces a rough patch.

Early this year, in a joint announcement, NMB Bank, the country's number four bank, and the state-owned Postbank group unveiled a proposal to merge the two institutions. They would privatise the Government's shareholding, and create "one bank with the strategy and one management and various market formulas under one roof".

The newly-merged institution, NMB Postbank, would represent an important fourth pillar in Dutch banking, challenging the predominant role of the private market at home.

It would also rank in the top 25 of European banks with assets of FL45bn.

But the difficulties and the price involved in translating the idea into reality suggests some potential pitfalls facing the fledgling institution in the months ahead.

The lengthy negotiations surrounding a critical labour accord, and the price of the ultimate agreement, are some cause for concern, analysts say. As late as mid-April, Mr G.J. van der Lugt, Postbank's chairman, was optimistically predicting a "speedy accord" with his bank's restive labour force, which has enjoyed a cushy deal since the 1986 merger that gave birth to their parent.

Measured in terms of wages and benefits, the Postbank pay package was well in excess of the norm in Dutch banking. Moreover, as a price of their co-operation in that merger, between the then National Savings Bank and Postal Giro system, the unions extracted an in-built commitment to a policy of no forced layoffs through 1991.

The unions did not greet attempts to bring their agreement into line and water down the 1986 agreement with any great enthusiasm, and the accord was neither "speedy" nor cheap.

An accord between the unions and banks finally was reached in the early hours of June 10 after an all-night bargaining session. It will cost the employers FL60-80m in job guarantees and perquisites, according to one union negotiator. None of the 23,000 employees can be forcibly laid off before January, 1992; and Postbank workers will get more vacation days. About 7,000 low-level staff members are to receive a 1.5% salary boost and a 2,000 increase in annual pension benefits. Postbank's generous benefits for pregnancy, birth and child care will be extended to NMB. The difficulties in reaching this accord point to the broader challenge facing the new institution: merging a market-oriented and a public corporate culture with a civil service mentality cheaply and quickly enough to thrust into important new markets, against the ever-changing landscape of European banking as a whole.

On the positive side the deal gives NMB access to relatively cheap funds given that one out of every three Dutch have an account with the Postbank. It will use this to bolster its corporate finance operations in direct competition with Amro, and to a lesser extent expand its international spread.

On the international side, where NMB already has a profitable network of some 40 foreign offices, expansion is likely to be restrained in the medium term.

The plan is for the government to trade its Postbank shares of NMB equity on a one-for-one basis. Emerging with 68 per cent, then in possibly more than one batch to privatise all or part of its holdings.

For two years, both would maintain their separate corporate identities and subsidiaries of an NMB Postbank holding company, with separate payments transfer systems. Eventually bringing these systems together, and modernising the electronics banking facilities, are expected to entail considerable resources.

For Giro clients a new range of services will be offered;

and medium-sized business. "They will have to invest some resources, and face higher costs at the beginning, but I think the Dutch market will see more competition especially on the securities side," says Mr Tuin. "Margins in the securities business will decline."

Moreover, it is not clear whether the privatised PTT, while the NMB will maintain its range of full-service offices around the country. Some analysts feel a number of these offices will have to go. Moreover, it is not clear whether the privatised PTT, while the NMB will maintain its range of full-service offices around the country. Some analysts feel a number of these offices will have to go.

Given all the difficulties facing the new bank, analysts expect it will remain largely dependent on the cycles of the Dutch domestic market for some years to come.

"These two will have their hands very full at home trying to organise this merger," says the BZM analyst. "It will be a very time-consuming process and they will not have much time to devote to building up abroad."

NMB Postbank will be an important fourth pillar in Dutch banking

"One might have wondered why they did not reach an agreement with a foreign institution, like Amro did with Générale de Belgique," says an analyst with Barclays de Zoete Wedd. "But they've done as well as they could on the domestic market."

"It's a perfect fit," says Mr Tokko Tuin of Kempen & Co. "NMB will obtain better marketing as a result" despite the heavy initial costs. He says Postbank will bolster its strength on the domestic retail market, while NMB will be able to build on its traditionally solid position among small

and medium-sized business. "They will have to invest some resources, and face higher costs at the beginning, but I think the Dutch market will see more competition especially on the securities side," says Mr Tuin. "Margins in the securities business will decline."

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David Brown

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FINANCIAL FUTURES MARKET

Young and full of confidence

THE AMSTERDAM Financial Futures Market (FTA) is young, but full of hope. A new Dutch bond future was introduced earlier this month, generating turnover of 600 contracts on the first day of trading.

It is a futures contract on a hypothetical 7 per cent Dutch Government bond, with a nominal value of FL250,000. Settlement is through physical delivery.

The new Dutch bond future contract specifications are similar to the German bond future on the London International Financial Futures Exchange, (LIFFE).

The German bond future reflects West German capital market interest rates, for which there is a growing demand. By introducing a similar contract on Dutch capital market interest rates, the FTA hopes to provide investors with the same opportunities for hedging interest and bond market risks - with a contract based on physical delivery.

The FTA bond future is being introduced primarily at the request of the professional market. Physical delivery is expected to improve the quality of price formation. Professional traders will be able to combine their futures positions in London with a position in Amsterdam because contract specifications are similar and are terminated at exactly the same time, explains Mr Robert L.Sandelovsky, FTA's Director.

"I very well realise that we are small compared to London's Futures Exchange where a bond like this books 20,000 contracts a day," he admits. "But we are a healthy baby, growing rapidly; mother and child are doing well."

The mother is Amsterdam's European Options Exchange (EOE). The FTA has a corner on the future of the FTA, although some people claim that expertise is lacking on the Amsterdam Exchange. He denies this but thinks "traditional attitudes have kept some

good people in the wrong places."

It is this conservatism which has kept the very substantial Dutch pension-funds - among the world's largest - from using the financial futures more extensively. In London, the Futures Exchange is bigger and more aggressive "because British professional investors want to make profits, rather than an investment, as the Dutch still do," he says.

In August, a new bond future based on the five Dutch municipalities, namely Philips, Akzo, Royal Dutch, Unilever and KLM, will be introduced. By doing so, Amsterdam hopes to attract more international investors.

The new bond future contract opens up new perspectives for international investors and professional traders to hedge their risks and protect

bond portfolios against the effects of a decline in the bond prices.

The main difference between this bond future and the existing contract is that the new contract is based on physical delivery of bonds when the contract expires. Existing bond futures are settled solely on a cash basis.

The underlying value of the FTA bond future is a hypothetical government bond with a nominal value of FL250,000, and a coupon yield of 7 per cent.

All bullet-type government bonds with an outstanding amount of at least FL1bn and a remaining life of between 8 and 10 years, are eligible for delivery. The futures price of the hypothetical government bond is calculated on the basis of the market price of the cheapest-to-deliver bond, multiplied by the conversion factor determined by the FTA.

Because of the conversion factor, all eligible bonds are inter-changeable. The new future will trade in the March-June-September-December delivery cycle.

The last day of trading is the seventh calendar day of the month, or if this is not a bus-

ness day, the first business day thereafter. The FTA bond future is the third contract to trade on the Financial Futures Market, Amsterdam.

The FTA Bullet Index Future began in May 1988, followed by the introduction, five months later of the futures on the EOE Stock Index, (FTI). The FTA Bullet Index is the unweighted average of the prices of the 10 Bullet State bonds.

The FTI contract is based on the EOE Dutch Stock Exchange Index.

The volume last year in three futures was as follows:

- Futures contract based on EOE-FTA Bond Index: 34,215.
- Futures contract based on FTA Bullet Index: 53,134.
- Futures contract based on EOE Dutch Stock Index: 34,405.
- The total was 121,754.
- Open interest as of the end of 1988, was as follows:
 - EOE-FTA Bond Index, 475.
 - FTA Bullet Index, 5,233.
 - EOE Dutch Stock Index, 4,088.
 - The total was 9,792.

Friso Eeftink

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The European Options Exchange

Breaking all records in Amsterdam

AT THE European Options Exchange (EOE), this is the year when all records will be broken - when average turnover for the first six months was 22.49 per cent up from 1987 (which was also a year previous records were broken).

Mr Tjerk Westertop, president of EOE, boasts that, in 1988, Amsterdam took the lead from London. The figures for the first six months of this year were: Amsterdam 5,520,038 contracts - and London, 4,238,697.

Mr Westertop confirms that 1988 was the year of "restoring confidence," following the October Crash.

"To the surprise of many," he says, "markets picked-up steadily over the year."

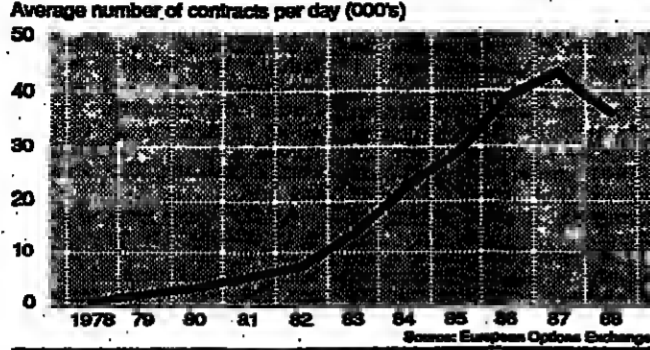
The private as well as the institutional investor returned to EOE after the October 1987 crash, contrary to London. The introduction of the index options has done the EOE market "a lot of good," according to Mr Westertop.

The EOE Dutch Stock Exchange Index (introduced in May, 1987) is significant: on November 15, 1987, the EOE Dutch Stock Index was quoted at 158.25. In 1988, the index opened at 168.25 and closed in December at 252.23, close to the highest quote of October, 1987, i.e., 268.72.

In Chicago, 50 per cent of the trade is aimed at the index options, in Amsterdam, close to 20 per cent. Since then, Amsterdam has introduced a new index-option: the five Dutch internationals, Philips, Unilever, Royal Dutch, Akzo and KLM.

"This is another instrument in our efforts to lure the insurance companies and the per-

European Options Exchange Volume



son funds in our EOE," says Mr Westertop.

Indeed, index options in shares have been quite successful with Dutch pension funds, considered to be the richest in the world. Alexander A. van Droogen, the marketing manager of the EOE, says London took the lead over Amsterdam in 1987.

Amsterdam traded in 22 Options only, and London in more than 90, but the comeback is due to a large scale public relations campaign, bringing more than 14,000 interested Dutch people to the Option Exchange Building, in the heart of Amsterdam, for a 1½-day information course.

Another significant signal is the outcome of a survey of 15,000 Dutch households, which indicates that the Dutch options-investor is not a dash-

ing 'yuppie-type,' but typically 'the solid, homely Dutch father with four children.'

Of all Dutch families, only 2.8 per cent invest in options. Among these, options-owners (31 per cent) combine options with ownership of shares and Bonds, but only 19 per cent owns nothing else but options. At present, 15.2 per cent of Dutch families are investing in stocks, and of these, the categories are:

- In options only: 0.5 % per cent.
- In options and shares/bonds: 4.3 per cent.
- In shares and bonds only: 12.5 per cent.
- Households with no stocks at all amounted to 84.7 per cent. The 2.8 per cent investing in options indicates an equivalent of 180,000 Dutch households, adds the report.

People were also asked if they had plans "to go into



Optimistic: Mr Tjerk Westertop, president of the European Options Exchange, (top). The past year has been one of "restoring confidence" among private and institutional investors, he says.

eration in this area will be somewhat limited, but he adds: "In the long run, we will have to co-operate in Europe. The Americans want to go global - they have said so, repeatedly. Japanese options exchanges are growing rapidly, the index options were introduced in Osaka in early June.

"In that noisy battlefield, we will have to survive and by way of co-operation." Mr Westertop has FL100m in cash available which, in his view, could be useful in a future link-up with a European partner like Brussels - or, he adds with a smile, "when the day comes that London's Options Exchange cuts itself loose from the London Stock Exchange, then we will be waiting with our ready-assets for a very serious partner."

Friso Endt

Privatisation

No rush into 'people's capitalism'

WITH two huge privatisations of state companies on the horizon, many politicians would be rubbing their hands with glee. But not Mr Ruud Lubbers, the caretaker Prime Minister who is now campaigning for the General Election on September 6.

Privatisation is not even an issue in the campaign, despite the planned privatisations of one-third of DSM and one-half of KLM.

Mr Lubbers and his Christian Democrat-Liberal Administration have viewed privatisation primarily as a way of

have sold since the flotation. "There will be less attention to the private investor" in the second tranche, he predicted. "If an investor has less than FL10,000 then he should put it in an investment fund."

In the DAF deal only 25-30 per cent of the 18m shares went to private investors and many of the subscribers missed out. The rest of the stock went to institutional investors because that is the way DAF wanted it, according to Amsterdam-Rotterdam Bank, the global co-ordinator.

Ironically, privatisation is gathering pace just as Mr Lubbers' centre-right government - whose governing accord encompassed state disposals - has collapsed. That accord promised to raise about FL2bn during the 1987-90 cabinet period.

Around FL1.5bn has been generated by disposals so far and a further FL1.8bn or more could come from DSM and NMB/Postbank together. Another one-third of DSM's 35m shares will be spun off in September, putting perhaps FL1.5bn in state coffers and leaving one-third in state hands.

The same team of banks, led by Amro as global co-ordinator, will handle the deal and, Mr Timmermans said, as in the first time around institutional investors will be courted during an international road show.

But a pitch to "Jan Modaal", the average man in the street, will be made only if the underwriting banks want to do that. Mr Timmermans continued. He expects no stock split in order to trim the rather steep price - around FL140.

"Some view people's capitalism with moral distaste"

The Lubbers administration also promised to sell its 68.5 per cent stake in the newly merged NMB Bank, which is 7 per cent owned by the state, and Postbank, which is entirely government-owned. A date has yet to be set because merger plans were delayed by union opposition.

Earlier this month Mr. John Lintjer, the Finance Ministry's director of financing, said The Hague wanted to spin-off its stake "in the near future - if already appears that there is substantial interest in a possible issue of NMB/Postbank shares, domestically, as well as abroad," he added.

Whether a new government will de-rail that plan is unclear. Since privatisation is too minor for the main political agenda it is difficult to fathom what will happen to Lubberian policy.

Of the state's participations in 45 companies, 10 have been targeted for privatisation "in due time."

Besides DSM, NMB and Postbank others include KLM Royal Dutch Airlines, Fokker, the aerospace company, Hoogovens, the steelmaker, and the PTT telecommunications agency.

Laura Raun

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enc

1989-1990

NETHERLANDS FINANCE-6

Rotterdam Energy Futures Exchange

Little time for lunch at Roefex

IN LONDON, the International Petroleum Exchange recently decided to stay open during lunch hours. In Rotterdam, this decision was seen as a reaction to the imminent birth of the Rotterdam Energy Futures Exchange (Roefex), which will open late in October.

"Trading hours will be 10 am to 6.30 pm, Rotterdam time, which means a few hours overlap with US exchanges. That is the reason why London has been forced to stay open between 12.30 pm and 2.30 pm," said Mr Peter de Jong, project manager of Roefex.

"The Rotterdam oil world has forgotten all its objections and has embraced Roefex," he boasted. Two of the world's leading oil companies, known as the "Seven Sisters," were considering taking off-floor seats, said Mr de Jong,

The Rotterdam oil world has forgotten all its objections and has embraced Roefex

although he refused to give any details.

Mr de Jong worked for the European Options Exchange for four years before joining Roefex as an organising consultant. He is somewhat astonished by the sudden interest in Roefex, especially from abroad. He expected interest from oil traders in Switzerland, Belgium, and West Germany because they are involved in the Rotterdam oil spot market.

"The Americans support Roefex because they are always dreaming about a global market," Mr de Jong said with a smile. When the New York Mercantile Exchange (Nymex) was closed the Wall Street refiners wanted to trade on exchanges abroad, such as London and Singapore. But Singapore would face fresh competition from Tokyo next year and London from Rotterdam later this year.

The Americans thought the city (Rotterdam) was too slow, noted Mr de Jong. One of Mrs Rosemary MacFadden's (president of Nymex) first questions was: "Are you also closing shop during the lunch hour, 12.30-2.30, like in London?" The lunch-break can be disastrous



The tanks and pipelines at Rotterdam (above) and the port (below), the busiest in the world: part of an oil trading community that was suspicious of paper markets.



if a broker has to act immediately for a client.

"Three weeks ago the IPE announced that the lunch-break would be abolished," Mr de Jong continued. "But I hear that although the market is open the floor is empty at that hour; in other words, the shop is open but the personnel is out for lunch."

Several American brokerage firms are opening up in Rotterdam and British brokers are showing interest. "I do not think this is going to be a war between the energy futures markets of London and Rotterdam," observed Mr de Jong. "There is enough room for two

markets.

"It was the same with Chicago and New York," he recollected. "Everybody said that we wouldn't need New York between Chicago and London. New York began six years ago with a daily average of 800 contracts. Today, it has 150,000 - the world's largest."

When plans for Roefex were announced last April applicants for a seat had to queue up and the numbers exceeded 160 in early June. It will be housed in Rotterdam's World Trade Center.

Roefex represents a breakthrough in Dutch thinking. Amsterdam has always been

associated with the financial world and Rotterdam - the world's busiest port - with business. In Rotterdam there are houses for grain, insurance and citrus fruit. For more than 25 years there has been the Rotterdam spot oil market, which has no building and no floor.

Platts Oil Gram, which daily publishes the Rotterdam spot prices, serves its customers worldwide by telex and fax. Every day the editors telephone Rotterdam traders, asking the opening and closing prices for crude oil, fuel oil and gasoline. The editorial integrity guarantees the daily set-

ting of prices in the Rotterdam oil spot market.

Two years ago the Rotterdam spot market turned its back on Mr Tjerk Westertop, the energetic president of the European Options Exchange, who launched the idea for an oil options exchange. Rotterdam oil traders considered future markets to be a "lunatic park", for speculation.

When he was told that terminals for the new exchange had been ordered, Mr Tom Dettiger of Vito - the spot market trader - fired back: "What the hell should we do with video barrels?"

The spot market traders trade in crude with the whole world. Their objection was that physical delivery for oil on the future markets is non-existent.

"On the IFE in London they are trading without any

The Americans support Roefex because they want a global market

know-how regarding the 'real' market, the physical market," said one trader. "In other words," as he put it, "my dentist sets the oil price."

But the yo-yo game on the international oil markets forced traders to hedge their risks on the London Future Market. The physical and paper contracts complemented each other.

Mr Westertop is a man who never gives up. Recently a new plan was set up with the help of Mr Rudolph de Bok, the president of the Rotterdam Chamber of Commerce, with Mr Henk M. Molenaar, the director of the Port Authority, and with spot market trader Mr Jan Oenderslil.

It was to be a futures exchange and to start with a crude oil contract on Brent and a gasoil contract.

Mr Westertop said proudly when the Roefex was announced last April: "The crude contract offers - for Europe - a unique possibility to deliver in tank transfer. In addition to Brent several other grades can be delivered."

Every contract will cover 1,000 US barrels. The gasoil contract will be based on a typical contract for a Rhine barge.

Frisco Endt

Corporate sponsorship of the arts

Worthy contribution

WHEN a quartet of companies recently announced it would sponsor the Royal Concertgebouw Orchestra to the tune of £1.1 million, it was music to the symphony orchestra's ears. Never before has Dutch business promised to provide an arts subsidy of such permanence - in this case for the 1989-90 season. In the past companies have usually donated money for a given exhibit or event.

The debut of structural sponsorship reflects the explosion in corporate support for the arts. Mr Tjerk Westertop, of the Arts and Business Foundation, estimated that corporate sponsorship has surged from less than £10m annually in 1981 to more than £125m a year now.

A magazine called "Sponsoring" was launched recently amid growing awareness of the role of philanthropy in public relations.

"It is soft-sell corporate communications, an interesting way to meet business partners," explained Mr Yocariul. The Arts and Business Foundation was established 25 years ago by leading Dutch companies such as Philips to advise them - and the government - on acquiring and commissioning art.

The explosion in corporate sponsorship of the arts, however, has raised vexing questions. Can the arts world allow itself to become reliant on the business community? Does corporate sponsorship mean only lowest common denominator art and "megaprojects" guaranteed to pull in mass audiences will flourish? Will artists' independence be jeopardised?

The Netherlands still lags behind many European countries and the US in corporate sponsorship. Captains of industry abroad have viewed support for culture as a subtle tool for shaping corporate image, impressing clients and raising the corporate profile.

But most Dutch industrialists have begun only recently to think seriously about their companies' public image. In the financial community Amsterdam-Rotterdam Bank is among the avant-garde.

"The projection of image and the degree to which this image conforms to the client's lifestyle have a great influence on the choice of a bank and customer trust after a certain bank has been chosen,"

explained Mr M.J. Drabbe, a member of Amro's management board, during a recent banking seminar.

Furthermore, the arts community has received rather generous support from the Dutch Government. In an effort to achieve a "vertical spread of culture" the state has been almost the sole patron of the arts.

Artists do not have to starve to be artistic, it was argued, so lavish subsidies were doled out to aspiring painters, for example. But their works began to fill government buildings basements instead of museums and the scheme has been trimmed.

Yet corporate sponsorship of the arts can trace its roots back to the Netherlands' Golden 17th Century when rich merchants commissioned portraits from Rembrandt, among others. Churches received gen-

The debut of structural sponsorship reflects the explosion in corporate support for the arts

erous donations from wealthy burgers who wanted big, ornate tombstones.

But after the Second World War Dutch society insisted on a more egalitarian system for financing the arts. By the 1960s the state was considered the guarantor of social welfare and that included culture.

By the same token capitalism fell into disrepute and profit was a dirty word. Businessmen would have been reviled had they tried to pay for artistic endeavours.

Not until the 1980s have companies even begun to contemplate a role in the arts world. "Dutch companies failed to use the art to help reverse the image of dirty capitalists," lamented Mr Yocariul. "This is not a cultural country but a trade country."

The Christian Democrat-Liberal Government, which collapsed last May, scaled back its role in the arts. Spending levels were frozen and subsidy schemes have been revamped to promote quality instead of social welfare. If a centre-left coalition emerges from the September elections then state

spending could rise again. But corporate sponsorship seems likely to grow regardless.

NMB Bank was one of the quartet of companies donating money to the Royal Concertgebouw Orchestra. The others were Postbank, which is merging with NMB, DAF and Doewe Egberts.

Their £11.75m contribution will be used to add five musicians, bring international directors to Amsterdam and perform more often abroad. In return the sponsors can advertise their names, have guaranteed seats and organise exclusive concerts.

"With an eye on its increasingly international activities NMB will gladly associate with the orchestra during its appearances abroad," the bank explained.

This past spring Amro sponsored an impressive retrospective of Malevich for £100,000. The exhibition was a brilliant collection of works by one of Russia's greatest 20th Century artists, and included some hidden for 60 years.

"Malevich wouldn't have been possible only a few years ago," contended Mr Yocariul. "By Dutch standards it was big."

Nevertheless he was worried about the arts community becoming too dependent on corporate sponsorship. Those who give can also take away, Mr Yocariul noted, citing an example of a Washington DC museum whose future was jeopardised by the loss of a large funding source.

Cultural institutions, like all others, must plan ahead and security of income is vital.

Another risk is that only mainstream works will be financed and controversial art will be left to the vagaries of the state. Corporate sponsors generally stick to mass appeal events for want of wide exposure and to avoid offending the public.

In the past, culture ministers insisted that only the state could ensure artists' freedom of expression, Mr Yocariul remembered. Private sponsors could dictate terms, ministers worried.

But some of the world's greatest art was commissioned under strict conditions. Haydn was servile to Count Esterházy and listened to the rellinist.

Laura Rubin

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- Barclays Bank (Hong Kong) (Incorporated in Hong Kong), G.P.O. Box 299, HONG KONG.
- Bank Bumi Daya, Jalan Jendral Sudirman No. 20, Jakarta, INDONESIA.
- Banque Internationale A Luxembourg S.A., 2 Boulevard Royal, LUXEMBOURG.
- Mid-Asia Bank Limited, Savings Office, 231 Republic Street, SINGAPORE.
- Bank of Mauritius, P.O. Box 289, NAIRUI, NETHERLANDS.
- Amstelveen & New Zealand Bank Group Limited, P.O. Box 1996, Wellington, NEW ZEALAND.
- Papua New Guinea Banking Corporation, P.O. Box 78, Port Moresby, PAPUA NEW GUINEA.
- Barclays Bank S.A., P.O. Box 139, CE-1211 Geneva 3, SWITZERLAND.
- *Barclays Bank P.L.C., Scotch Exchange Street, Second Floor, 54 Lombard Street, London EC3P 3AH, UNITED KINGDOM.

*CAUTION: In certain circumstances U.K. tax may be deducted by this paying agent only.



BARCLAYS UNIBOND INTERNATIONAL (CHANNEL ISLANDS) LTD.

FRANKM

The Combined Ordinary and Extraordinary General Assembly of FRANKM S.A. was held on June 8, 1989 in order to approve the financial statements of the first eighteen month financial year of this new company, created in the frame of the Kuwait-French Bank Group and specialised in real estate development.

FRANKM strengthens the structure progressively set up under the Kuwait-French Bank Group in order to channel the Kuwaiti investments in France, particularly in the real estate field. In this respect, it is reminded that two SICOMI, FRANKOBAIL and FRANKOPARIS were created in 1985 and 1986.

As of December 31, 1988, the total balance sheet reaches FF 269,801,883 and the statement of income shows a net profit of FF 2,527,079.

Since its setting up, FRANKM has considerably expanded its activities: participants in various real estate programs reached FF 72,918,950; the assets of the company also include, in whole property, the Hotel Tabard operation, located rue Vivienne in Paris.

Moreover, the most important operation of FRANKM concerns the refurbishing of the former warehouses of the Sommeville Department Store, located in the 14th district in Paris. The program will include the developing of: offices (41,000 sqm), flats (135,000 sqm), archives and 865 parking places. Works recently began on the project.

At present, the shareholders equity represent FF 12,877,544.

In 1988, new shareholders joined the capital of FRANKM. It is now distributed as follows:

Kuwaiti-French Bank	74.78 %
Kuwaiti Real Estate Investment Sdn Management Company (Affiliate up to 100 % of the Public Institution for Social Security) Cr�de Industriel et Commercial de Paris	4.91 %
C.C.G.R.	3.02 %
Swiss-Kuwaiti Bank	2.52 %
Bahrain International Bank	1.64 %
U.F.E.I.	1.64 %
Divers	3.58 %

Following the General Assembly of the shareholders, the Board of Directors of the Company designated Mr Henri Sney de Cholon as Chairman of the Board, Mr Sney de Cholon filled important duties, particularly within a major French national bank, and, more recently, played a prominent part in the development of several real estate investment companies.

17, rue Courmarin 75009 Paris, Tel. 42.06.92.10

ALLIANCE LEICESTER

Alliance & Leicester Building Society

£200,000,000

Floating Rate Notes due 1993

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the three month period ending 28th September, 1989 has been fixed at 14.125% per annum. The interest accruing for such three month period will be £356.03 per £10,000 Bearer Note, and £3560.27 per £100,000 Bearer Note, on 28th September, 1989 against presentation of Coupon No. 4.

28th June, 1989

London Branch Agent Bank

U.S. \$75,000,000

GZ BANK

Girozentrale und Bank der  sterreichischen Sparkassen Aktiengesellschaft

Floating Rate Subordinated Notes Due 1991

Interest Rate 9 5/8% per annum

Interest Period 30th June 1989 to 29th September 1989

Interest Amount per U.S. \$1,000 Note due 29th September 1989 U.S. \$24.33

Credit Suisse First Boston Limited Agent Bank

PARINTER BOND FUND S.A.

R.C. Luxembourg B 8849

NOTICE TO SHAREHOLDERS Issue of Free Shares

Pursuant to a resolution of the Annual General Meeting held on 18th April, 1989, the Company will proceed with the issue of free shares in the proportion of one new share for every 19 shares held on the 26th June, 1989.

These free shares will be assigned, without charge, after the 24th July, 1989.

Fractional shares will be aggregated and sold at the net asset value of the shares day. The proceeds will be allocated after that date to the shareholders in proportion to their rights.

The proceeds of the sale not claimed within 5 years of the specified date will lapse and revert to the Company.

By order of the Board of Directors The Secretary

INTERNATIONAL COMPANIES AND FINANCE

Drexel steps in to rescue Integrated Resources

By James Buchan in New York

DREXEL Burnham Lambert, the Wall Street investment bank which financed the heavy growth of Integrated Resources, has stepped in to rescue the collapsing financial services group with a cash injection of \$300m and a complex scheme to satisfy its creditors.

The plan, which was announced yesterday, goes some way to restoring the face lost by Drexel Burnham when Integrated Resources, a once high-flying syndicator of real-estate partnerships, defaulted on \$355m in loans and IOUs 10 days ago.

But some analysts fear that holders of more than \$600m in junk bonds may object that they are getting a poor deal.

Integrated Resources, which collapsed when it found it

could not finance a book of long-lived financial planning products in short-term markets, yesterday said Drexel Burnham will raise \$300m in new money to pay off about a third of its bank debt, commercial paper and senior debt.

Drexel Burnham says that it will itself buy \$100m in new mortgage securities, called reset notes, and is highly confident it can place the remaining \$200m. For the remaining senior debt, lenders will receive interest-bearing secured notes.

But holders of the \$322.4m in junk bonds will receive securities only up to 70 per cent of the face value of their holdings. The new securities will be common stock and a junk bond that pays no interest in cash for three years.

Analysts say these junk-bond holders, who were assembled by Mr Michael Milken, Drexel Burnham's master financier, may be "loyal" to the firm and vote for the deal which needs their 90 per cent support.

But some may prefer to take their chance of a better pay-off from the bankruptcy court.

Drexel Burnham, which beat out a rival plan from Goldman Sachs, is the acknowledged Wall Street master of such exchange offers.

But competitors point out that Mr Milken, who was forced out of Drexel Burnham as part of a deal to save the firm from prosecution, used to arrange exchange offers before rather than after default.

SEC files fraud suits against Bilzerian

By Roderick Oram in New York

THE Securities and Exchange Commission filed securities fraud suits yesterday against Mr Paul Bilzerian, a corporate raider recently found guilty on similar criminal charges, and Mr Edward DeBartolo, a billionaire developer of shopping malls.

Mr DeBartolo agreed to settle the charges without admitting or denying he broke securities laws when he helped finance some of Mr Bilzerian's raids. He will hand over to the government more than \$2.7m of profits from the raids. Two of Mr DeBartolo's senior executives were also charged.

Mr DeBartolo, aged about 80 and a resident of Youngstown, the depressed Ohio steel town, had also played a crucial role in helping finance the \$3.6bn purchase of Allied Stores by Mr Robert Campeau, the Canadian investor.

Mr Bilzerian has not yet settled with the SEC which is seeking to recover from him \$31.3m in allegedly illegal profits. He is planning to appeal against his recent conviction on nine criminal charges which carry a maximum of 45 years in jail and \$3.25m in fines. It was the first jury conviction on information from Mr Ivan Boesky, the takeover specialist who admitted to wide ranging breaches of securities laws.

Many of the charges brought by the SEC involve Mr Bilzerian's attempts to conceal financial support from Mr DeBartolo as his own funds. According to extensive US reports, Mr DeBartolo one of the wealthiest real estate developers in the country, exacted extremely generous terms from Mr Bilzerian.

The civil charges go further than the earlier criminal ones, however, by including Slingshot, the defence electronics company Mr Bilzerian acquired for \$1.06bn in 1987. He has since sold off most of the famous company but the disposals have generated law suits seeking hundreds of millions of dollars in damages.

US semiconductor sector growth slows

By Louise Kehoe in San Francisco

THE US semiconductor market appears to be heading into a period of slower growth, a "summer slump" that may be a signal of a longer term trend affecting a broad range of electronics manufacturers, according to industry analysts.

The latest sign of the long-anticipated semiconductor downturn came from LSI Logic, a leader in the field of application specific integrated circuits (ASICs), customised semiconductor devices.

The company said this week it expected second quarter earnings to decline from first quarter levels and fall short of recent expectations.

Several US computer manufacturers have asked the chip maker to delay delivery of components, it said. Order rates have also slowed, suggesting that business will be flat over the next few months.

The theme is common throughout the US semiconductor industry, say analysts. Mr Drew Peck of Donaldson Lufkin & Jenrette in New York, says: "The market is sluggish. Computer manufacturers are afraid of the general economic outlook, so they are holding back orders for semiconductor components."

"It is a buyers market for semiconductors. The chip makers have excess production capacity and sluggish demand is creating pressure on prices," he adds. Yet it is becoming increasingly difficult for semiconductor manufacturers, and those who follow the industry, to forecast market trends.

Mr George Wells, company president, said LSI Logic "has adopted a cautious business outlook due to the lack of long-term visibility in the marketplace," echoing recent statements from other US semiconductor executives.

Computer companies are placing short term orders to meet immediate needs, rather than planning ahead with longer range orders. This is partly due to nervousness about the economic outlook and also because US equipment manufacturers are adopting the

"just-in-time" approach to inventory control.

Fearing concerns about the outlook for the computer and semiconductor markets are reports from AMDahl, the mainframe computer manufacturer. Yesterday it said it expected an earnings decline in the current quarter.

In addition Commodore International, the personal computer manufacturer, said its results for the current quarter could range from "a modest profit to a modest loss".

Stock prices on a broad range of semiconductor and computer companies fell sharply on Wednesday as analysts cut their earnings estimates in anticipation of slower sales growth. Apple Computer, for instance fell 1% to \$41.

Analysts differ over whether the current sluggish market is little more than the traditional seasonal slowdown in the summer months, or whether it signals a significant trend toward slower growth that could last through 1990.

The personal computer business is "clearly slowing," said Mr Richard Whittington of EDA Peabody. The decline is more than just a "normal seasonal slowdown," he maintains. Others say, however, that demand for personal computers remains strong and sales will pick up toward the end of the year.

The uncertain outlook for computer sales makes it especially difficult to forecast trends in the semiconductor market. Mr Millard Phelps of Hambrecht & Quist in San Francisco, says: "We will not really know until September."

He predicted that semiconductor order rates should pick up after the summer to produce annual market growth of about 10 per cent for the year and about the same in 1990.

Others are less optimistic. "There is a growing consensus that the semiconductor market is becoming less volatile and that the industry will make a 'soft landing' rather than plunging into a dramatic recession as it has in the past."

Autolatina to invest DM4bn

By Kevin Done, Motor Industry Correspondent

AUTOLATINA, the joint venture company set up by Volkswagen of West Germany and Ford of the US in 1987 to combine their South American automotive operations, is to invest around DM4bn (\$2bn) in the five years from 1989 to 1993.

In one of the first steps in the investment programme Autolatina is to build a DM400m plant to produce transmissions for front-wheel drive vehicles in Cordoba, Argentina.

The plant, which will create around 700 jobs, is scheduled to begin operations in early 1992. It will have a capacity to produce 1,300 transmissions a day, or 300,000 a year on a three shift per day system.

The transmissions, which are being developed by VW, will be used in Volkswagen and Ford cars produced in Brazil and Argentina.

VW said the plant would improve Autolatina's exchange of mechanical assemblies and components and allow higher production volumes through the joint use of the plant for VW and Ford vehicles.

Autolatina, owned 51 per cent by VW and 49 per cent by

Ford, is one of the largest joint venture companies in the world automobile industry. The merger in July 1987 followed years of heavy losses in South America by the two companies, but Autolatina began to trade profitably last year.

Mr G nter Hartwich, VW's management board member responsible for production and chairman of the Autolatina advisory board, said the company's cost structures had been significantly improved.

The merger had enabled VW and Ford to boost productivity, cut fixed costs and reduce the amount of capital tied-up in the previously separate South American operations.

Autolatina achieved a net profit last year of DM447m on a turnover of DM8.2bn, compared with a loss on a comparable basis of DM831m in 1987, said Volkswagen.

Autolatina's return to profit largely stemmed from its victory in the protracted fight with the Brazilian Government over the right to set its own prices for cars and trucks. In March 1988 the Government lifted its highly restrictive price policy and made it possible to pass on inflation-related cost increases in higher retail prices.

It was also helped by the revival in car demand in Brazil last year. The group's sales rose by 15.1 per cent to 972,044, of which 374,796 were Volkswagen Group vehicles and 197,245 were Ford models, while production increased by 15.8 per cent to 573,113.

Autolatina produced 546,000 vehicles in Brazil in 1988 - 370,000 VWs and 176,000 Fords - of which 122,000 were exported, a drop of 17.7 per cent. Sales in Argentina fell by 12.5 per cent to 46,194.

The Autolatina product range, which is still sold through separate VW and Ford dealer networks, dominates the Brazilian market. VW captured 39.2 per cent of the car market last year - a big recovery from 35.1 per cent in 1987 - and Ford 20.8 per cent.

The two marques combined hold 59.8 per cent of the light commercial vehicle market and 85.4 per cent of the truck market. In Argentina Ford holds 14.3 per cent of the total vehicle market and VW 11.5 per cent.

General Mills sees record 1990 earnings

GENERAL MILLS, a leading US restaurant and foods group, which reported record results for fiscal 1988, is bullish about the current year.

The group, which has been boosted in recent years by the diversification of low growth business, said it expected to report record sales, earnings and earnings per share in 1990.

In the year to May 28 the company lifted net operating earnings to \$315.3m or \$3.85 a share on sales of \$3.62bn, compared with \$282.2m or \$3.24 last year on sales of \$4.98bn.

Havas launches \$237m rights with warrants

George Graham in Paris

HAVAS, the French advertising and media group, has launched a FF1.58bn (\$237m) rights issue, with attached warrants allowing it to raise up to FF1.74bn more over the next three years.

The group, privatised two years ago, said the capital increase would allow it to pursue a rapid expansion in its main areas of activity, both in France and overseas.

Havas has a low debt level, but it has made FF1.97bn of financial investments over the last three years, including stakes in Mills and Allen, the UK poster group, and in Europoster, a joint venture with Mills, as well as the purchase of the Repubblica de l'Economie regional newspaper in Rome.

The one-for-eight rights issue will involve the issue of 1.58m new shares, each with one warrant attached, at a price of FF1,000. The warrants may be exercised up to July 15, 1992, at a price of FF1,100.

The offering will be reserved to existing shareholders up to July 17, and then opened to the public.

Ente Nazionale per l'Energia Elettrica

U.S. \$300,000,000

Floating Rate Notes Due 2005

Unconditionally guaranteed as to payment of principal and interest by The Republic of Italy

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest has been fixed at 9 3/8% for the Interest Determination Period 30th June, 1989 to 29th December, 1989. Interest accrued for this Determination Period and payable 30th November, 1989 will amount to U.S.\$398.44 per U.S.\$10,000 Note and U.S.\$3,984.44 per U.S.\$250,000 Note. Total interest payable value 30th November, 1989 will amount to U.S.\$479.17 per U.S.\$10,000 Note and U.S.\$11,979.17 per U.S.\$250,000 Note.

Agent Bank: Morgan Guaranty Trust Company of New York London

Iveimer

U.S. \$100,000,000

Floating Rate Participation Certificates Due 1992

Issued by Morgan Guaranty GmbH for the purpose of making a loan to Istituto per lo Sviluppo Economico dell'Italia Meridionale (a statutory body of the Republic of Italy incorporated under Law No. 298 of April 11, 1953)

In accordance with the terms and conditions of the Certificates, the rate of interest for the Interest Determination Period 30th June, 1989 to 31st July, 1989 has been fixed at 9 3/8%. Interest accrued for the above period and payable on 31st July, 1989 will amount to US\$81.81 per US\$10,000 Certificate.

Total interest payable value 31st July, 1989 will amount to US\$803.73 per US\$10,000 Certificate.

Agent Morgan Guaranty Trust Company of New York London Branch

Copenhagen Handelsbank A/S

(Incorporated in the Kingdom of Denmark with limited liability)

U.S. \$100,000,000

Subordinated Floating Rate Notes Due 2000

In accordance with the provisions of the Notes notice is hereby given that for the six months interest period from 30th June, 1989 to 29th December, 1989 the Notes will carry an interest Rate of 9 3/4% per annum. The interest payable on the relevant interest payment date, 29th December, 1989 will amount to U.S. \$467.64 per U.S. \$10,000 Note and U.S. \$11,690.97 per U.S. \$250,000 Note.

Morgan Guaranty Trust Company of New York, London Agent Bank

Exxon wins go-ahead for merger

By David Owen in Toronto

AFTER MONTHS of deliberation, the Canadian Bureau of Competition Policy has agreed to permit Imperial Oil, Exxon's Canadian subsidiary, to proceed with its US\$4.15bn takeover of Texaco Canada.

The bureau has imposed several conditions on the deal which will force Imperial, also a large Canadian-based energy company, to spin off a sizeable chunk of downstream assets.

Under the terms of the agreement, Imperial will sell as an ongoing entity virtually all of Texaco's downstream business in Atlantic Canada, including the Eastern Passage refinery, together with a clutch of service stations and distribution terminals across the country.

In all, 543 service stations will be put on the block. Imperial has also undertaken to continue to provide agreed volumes of petrol to independent marketers in Ontario and Quebec for at least seven years.

In return for these commitments, Imperial will be allowed to retain the larger Canadian-based energy company, to spin off a sizeable chunk of downstream assets.

Imperial already owns a 123,000 bpd refinery at Sarnia, Ontario. There had been considerable doubt as to whether the company would be permitted to keep the plant.

After the merger, Imperial will control 80 per cent of refining capacity in Ontario and Quebec. It will also boast reserves totalling 2.3bn barrels of crude oil and 5.4 trillion cu ft of natural gas.

Edper Enterprises, part of the Bronfman family of Canada's empire, has raised C\$110m through the sale of 4m subordinated voting shares.

The Republic of Trinidad and Tobago

U.S. \$50,000,000

Floating Rate Notes due 1990

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the next Interest Period has been fixed at 9 3/8% per annum. The Coupon Amount of U.S. \$482.92 will be payable on 28th December 1989 against surrender of Coupon No. 13

Bankers Trust Company, London Agent Bank

NOTICE OF REDEMPTION

HMC MORTGAGE NOTES 3 PLC

Class A Mortgage Backed Floating Rate Notes Due July 2015

NOTICE IS HEREBY GIVEN to the holders of the Class A Mortgage Backed Floating Rate Notes Due July 2015 (the "Class A Notes") of HMC Mortgage Notes 3 PLC (the "Issuer") that, pursuant to the Trust Deed dated 12th July, 1988 (the "Trust Deed"), between the Issuer and The Law Debenture Trust Corporation p.l.c. as Trustee, and the Agency Agreement dated 12th July, 1988 (the "Agency Agreement") and others, the Issuer has determined that in accordance with the Redemption provisions set out in the Terms and Conditions of the Class A Notes, Available Funds as defined in the Terms and Conditions in the amount of \$5,500,000 will be utilised on 12th July, 1989 (the "Redemption Date") to redeem a like amount of Class A Notes. The Class A Notes selected by drawing in lots of \$100,000 for redemption on the Redemption Date at a redemption price (the "Redemption Price") equal to their principal amount, together with accrued interest thereon are as follows:

OUTSTANDING CLASS A NOTES OF \$100,000 EACH BEARING THE DISTINCTIVE SERIAL NUMBERS SET OUT BELOW											
Bearer Notes											
56	179	358	443	568	672	799	945	1010	1282	1320	
88	223	372	428	594	721	813	968	1059	1287	1283	
108	255	352	478	612	723	812	973	1028	1285	1278	
119	281	401	506	615	724	871	979	1238	1286	1299	
174	298	416	553	641	772	935	1004	1256	1284	1413	

The Class A Notes may be surrendered for redemption at the specified office of any of the Paying Agents, which are as follows:

Morgan Guaranty Trust Company of New York
PO Box 161
1 Angel Court
London EC2R 7AE

Banque Internationale a Luxembourg S.A.
2 Boulevard Royal
L-2953
Luxembourg

Morgan Guaranty Trust Company of New York
Avenue des Arts 25
B-1040 Brussels, Belgium

Morgan Guaranty Trust Company of New York
30 West Broadway
New York, New York 10015
Attn: Corporate Trust Operations

In respect of Bearer Class A Notes, the Redemption Price will be paid upon presentation and surrender, on or after the Redemption Date, of such Notes together with all unmaturing coupons and talons pertaining thereto. Such payment will be made (i) in sterling at the specified office of the Paying Agent in London or (ii) at any specified office of any Paying Agent listed above by sterling cheque drawn on, or at the option of the holder by transfer to a sterling account maintained by the payee with, a Town Clearing branch of a bank in London. On or after the Redemption Date interest shall cease to accrue on the Class A Notes which are the subject of this Notice of Redemption.

HMC MORTGAGE NOTES 3 PLC
By MORGAN GUARANTY TRUST COMPANY OF NEW YORK, as Principal Paying Agent

Dated: June 29, 1989

Withholding of 20% of gross redemption proceeds of any payment made within the United States is required by the Interest and Dividend Tax Compliance Act of 1983 unless the paying agency has the correct taxpayer identification number (social security or employer identification number) or exemption certificate of the Payee. Please furnish a properly completed Form W-9 New York Office.

INTERNATIONAL COMPANIES AND FINANCE

Générale share issue allocation sparks argument

By Tim Dickson in Brussels

AN UNSEEMLY squabble erupted in Brussels yesterday over the allocation of 5m new shares in Société Générale de Belgique, threatening to tarnish the now highly polished image of Belgium's biggest and most celebrated holding company.

In what was seen as a highly unusual public outbreak of hostilities within the generally even-tempered Belgian financial establishment, Mr Jean Peterbroeck, chairman of the Brussels Stock Exchange, announced that he had asked the Exchange's quotations committee to suspend La Générale shares from next Monday pending a "favourable response" to his complaints about the method used to allocate them.

The move follows this week's successful offer for sale of an 11 per cent stake in the company previously owned by the Franco-Belgian consortium which defended Mr Carlo De Benedetti in last year's takeover struggle. The offer was three times oversubscribed by international and Belgian investors.

In an open letter to Mr Paul Emmanuel Janssen, chairman of Société Générale de Banque, the lead bank to the issue, Mr Peterbroeck complained that stockbrokers had suffered from

Abbey sees share offer 1 1/2 times subscribed

By Claire Pearson in London

THE £875m (£1,516m) offer of shares in Abbey National's £1.7bn stock market flotation finally closed yesterday morning. The UK building society was believed to be confident that the 766m shares had been at least 1 1/2 times oversubscribed.

Counting of last minute applications continued, while efforts were also being made to process the several thousand postal applications that had been prevented from reaching the receiving centres by yesterday's 10am deadline because of Wednesday's rail strike.

Lloyds, the receiving bank, is expected to carry on trying to identify these applications until late this afternoon.

The applicant for a small number of shares is likely to be strongly favoured when Abbey directors sit down with their financial advisers tomorrow morning to determine how the scaling down will work. Details of the basis of allocation, together with the precise level of subscription, will be announced in Monday's press. Share certificates will be sent out to members from July 10, ahead of final dealings on July 12.

The offer was made to 6.6m qualifying Abbey savers and borrowers, who will also receive free shares in the flotation, which marks the final stage of Abbey's six-month conversion into a public company.

Gardini stirs doubts over Enimont tie-up

By John Wyles in Rome

MR Eraldo Gardini, president of the Ferruzzi group, appeared to raise a serious doubt last night over the future of the Enimont chemicals joint venture in Italy by calling a meeting today of the Montedison board "to clarify the situation."

In Ravenna yesterday the Ferruzzi chief complained

about the hostile political reaction to his statement last week that he wanted to acquire majority control of Enimont in three years by merging Montedison's speciality chemical interests into the basic chemicals venture.

Enimont is 50-50 owned by Montedison and Eni, the Ital-

ian state holding group. Mr Gardini's unexpected declaration reminded members of the same Government which had approved the joint venture that the agreement could transform the state into a minority owner in 1992.

Under the agreement, the transfer of Montedison's basic

chemicals business is supposed to be legally completed by midnight tonight. As the controlling owner of Montedison, Mr Gardini could sink the agreement at today's board meeting.

The Ferruzzi president repeated yesterday that he wanted to go ahead with the arrangement. But he accused

the Government of creating "confusion and uncertainty."

"This was at a time when preparations were being made to place 30 per cent of Enimont's equity in third party hands, in an exercise to which my prestige is committed together with that of Ferruzzi and Montedison," he said.

Taking Groupe Bull by the horns

New chairman Francis Lorentz outlines the computer company's plans to Alan Cane

THIS week's long-awaited, widely-anticipated appointment of Mr Francis Lorentz as chairman and chief executive of Groupe Bull took place somewhat less dramatically than that of his predecessor, Mr Jacques Stern, at the state-controlled French computer manufacturer.

Mr Stern tells the story of his own succession in 1988 as follows: "It happened overnight. I was called at home on a Tuesday evening by Mr Pierre Dreyfus, the industry minister, who said: 'Do not be surprised to learn tomorrow that you have been appointed chairman of Bull. Can you see

me tomorrow afternoon?'"

The circumstances were very different to those now. The French Government had just completed tortuous negotiations with Honeywell of the US and the industrial group Saatchi-Goswin over the renationalisation of CII Honeywell Bull.

What has not changed is the fragility of the company's financial position.

After a comparatively sound 1988, Mr Lorentz has admitted that the group as a whole - Bull SA, the French arm, and Bull HN, the international company in which Honeywell and NEC of Japan have stakes of 15.6 and 10 per cent respectively - will miss its revenue target in 1989 and be hard-pressed to make a profit.

The reasons are: production difficulties at the group's huge Angers plant, and the unexpected strength of the dollar, which means that Bull is paying more than it budgeted for semiconductor chips and peripheral equipment.

It is a disappointing legacy. But Mr Lorentz is sanguine about the future, arguing that the benefits of being forced to accelerate the group's cost-cutting and rationalisation measures compensate for the bad points to some extent.

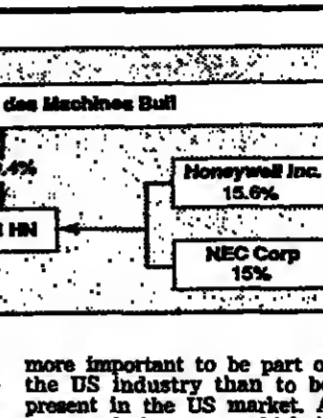
The key word for the coming months will be selectivity. We need it. Our past history means we have too many products, too many programmes, too many technologies. The push towards selectivity will be very positive.

Mr Lorentz, 47, is a graduate of the French Institute of Commerce and the French Civil Service Academy. A civil servant for 10 years, he was deputy managing director of the Société Lyonnaise des Eaux before joining CII Honeywell Bull as president and chief operating officer in 1982.

Since then, he and Mr Stern have managed the group through its complex series of changes of name and shareholdings as a partnership, making decisions in tandem. Mr Lorentz says his first objective is continuity of leadership - helped by Mr Stern remaining chairman of Bull HN, with Mr Roland Pampel as president and chief executive officer of the company.

Mr Lorentz says that the group will be guided by six strategic objectives. The first is to become, by the middle 1990s, the major European supplier of global information systems. Not just a supplier of computer hardware, he emphasises, but of integrated solutions, pulling together different kinds of computers and the communications, networking and applications software: "We have to take responsibility for the overall result of our information systems."

"There will be fewer and



Today, we are spreading our resources over too many product lines. There is no miracle to help here."

"On the other hand," he continues, "we have to protect our customers' investment in their existing equipment. So simplification will be a long process, lasting perhaps four or five years. There is no miracle to help here."

The troubles that both Groupe Bull and Honeywell Bull have faced over the years have meant that insufficient time and effort has been put into management, Mr Lorentz says ruefully. The fifth objective will address this: "We lost a lot of good people and we were unable to hire the best. We have a long way to go before being at the level of human resources and human resource management that I want us to be."

And the sixth aim is to become a truly European company. Bull is already active in every European country, but as two separate companies: "We will still be decentralised and have two separate identities, but one of our priorities will be to start, for example, European hiring programmes, hiring sales engineers at European level and training them through a common training course."

Mr Lorentz says that the group will look for acquisitions to strengthen its skills in systems integration or to give it new sales channels. However, just as important will be industry alliances, such as its co-operative venture with Olivetti of Italy in automated teller machines, and with ICL of the UK and Siemens of West Germany in basic research: "It is a world where you cannot survive without alliances," he says.

Brother profits fall 37%

PRE-TAX profits of Brother Industries tumbled 37 per cent, to ¥2.4bn (¥16m), in the first six months ended May 31, after falls in exports of consumer electronics and information equipment, writes Yuriko Mita in Tokyo.

Brother, the largest Japanese manufacturer of sewing machines, knitting machines and typewriters, has been expanding into software-oriented merchandise to boost profits. However, the company reported a drop in sales of 7.1 per cent to ¥76.8bn.

Sewing machine sales rose 0.4 per cent, thanks to strong demand for industrial machines. However, sales of consumer electronics and information equipment declined 36.5 per cent and 12.3 per cent respectively. For the second half of the fiscal year, Brother has reported it will step up development of new products and exploration of new business areas.

Brother's recurring profit for the fiscal year is projected to go down 21.2 per cent to ¥5bn.

Earlier this year, Brother was involved in an anti-dumping dispute with the European Community over shipments of computer printers.

CCF to sell Italian branches

CREDIT Commercial de France (CCF), the privatised French bank, has reached agreement with two Italian banks on a restructuring of its European network, writes George Graham.

The French bank will sell three of its Italian branches to Banca Antoniana, a savings bank based in Padua and one of the founder members of the Arca Nordest banking network.

Notification of Dividend

The Annual General meeting held on 29th June 1989 confirmed a dividend in respect of the year ended 31st December 1988 of DM 12 per share of nominal value DM 50.

The dividend will be paid on or after 30th June 1989 net of 25% withholding tax against submission of dividend coupon No. 7 as appropriate at one of the paying agents listed in issue No. 119, dated 30th June 1989, of the German Federal Gazette, the "Bundesanzeiger". In accordance with the Double Taxation Agreement of 26th November 1964, as amended on 23rd March 1970, between the United Kingdom and the Federal Republic of Germany, withholding tax in respect of shareholders resident in the United Kingdom is reduced from 25% to 15%.

To claim this reduction, shareholders must submit an application for reimbursement before 31st December 1992, to the Bundesamt für Finanzen, Koblenzer Straße 63-65, D-5300 Bonn-Bad Godesberg.

In the United Kingdom the dividend payment, which is free of charge, will be made in Pounds Sterling with conversion from Deutschmarks at the rate prevailing on the day of submission of the dividend coupon and will take place through the London offices of the following Companies:

S. G. Warburg & Co. Ltd., 33 King William Street, London EC4R 9AS.

Morgan Grenfell & Co. Limited, 23 Great Winchester Street, London EC2P 2AX.

The Board of Executive Directors
BASF Aktiengesellschaft

D-6700 Ludwigshafen/Rhine, June 30th, 1989

BASF

Wells Fargo & Company
U.S. \$100,000,000

Subordinated Floating Rate Capital Notes due September 1997

In accordance with the provisions of the Notes, notice is hereby given that for the interest period 30th June, 1989 to 29th September, 1989 the Notes will carry an Interest Rate of 9 1/4% per annum.

Interest payable on the relevant interest payment date 29th September, 1989 will amount to US\$240.14 per US\$100,000 Note.

Agent Bank: Morgan Guaranty Trust Company of New York London

Wells Fargo & Company
U.S. \$150,000,000

Floating Rate Subordinated Notes due 1992

In accordance with the provisions of the Notes, notice is hereby given that for the interest period 30th June, 1989 to 31st July, 1989 the Notes will carry an Interest Rate of 9.60% per annum.

Interest payable on the relevant interest payment date 31st July, 1989 will amount to US\$32.67 per US\$100,000 Note.

Agent Bank: Morgan Guaranty Trust Company of New York London

Wells Fargo & Company
U.S. \$200,000,000

Floating Rate Subordinated Notes due 2000

In accordance with the provisions of the Notes, notice is hereby given that for the interest period 30th June, 1989 to 31st July, 1989 the Notes will carry an Interest Rate of 9 1/4% per annum.

Interest payable on the relevant interest payment date 31st July, 1989 will amount to US\$32.67 per US\$100,000 Note.

Agent Bank: Morgan Guaranty Trust Company of New York London

CITICORP
U.S. \$500,000,000
Subordinated Floating Rate Notes
Due October 25, 2005

Notice is hereby given that the Rate of Interest has been fixed at 9.4% and that the interest payable on the relevant interest Payment Date July 31, 1989 against Coupon No. 45 in respect of US\$10,000 nominal of the Notes will be US\$82.67.

June 30, 1989, London
By: Citicorp, N.A. (CSSI Dept.), Agent Bank

CITIBANK

TRANSPORTACION MARITIMA MEXICANA, S.A. DE C.V.
U.S. \$500,000,000
SECURED FLOATING RATE SERIAL NOTES
DUE 1994

New Rate of Interest 10.4507% p.a.
Interest Payment Date December 29, 1989.
US\$42.48 per US\$100,000 Note.

June 30, 1989 By: Citicorp, N.A., CSS Dept London, Agent Bank

This announcement appears as a matter of record only.

29th June, 1989

PACIFIC METALS CO., LTD.

U.S. \$120,000,000
4 1/8 per cent. Guaranteed Notes 1993

with
Warrants

to subscribe for shares of common stock of Pacific Metals Co., Ltd.
The Notes will be unconditionally and irrevocably guaranteed by

The Industrial Bank of Japan, Limited

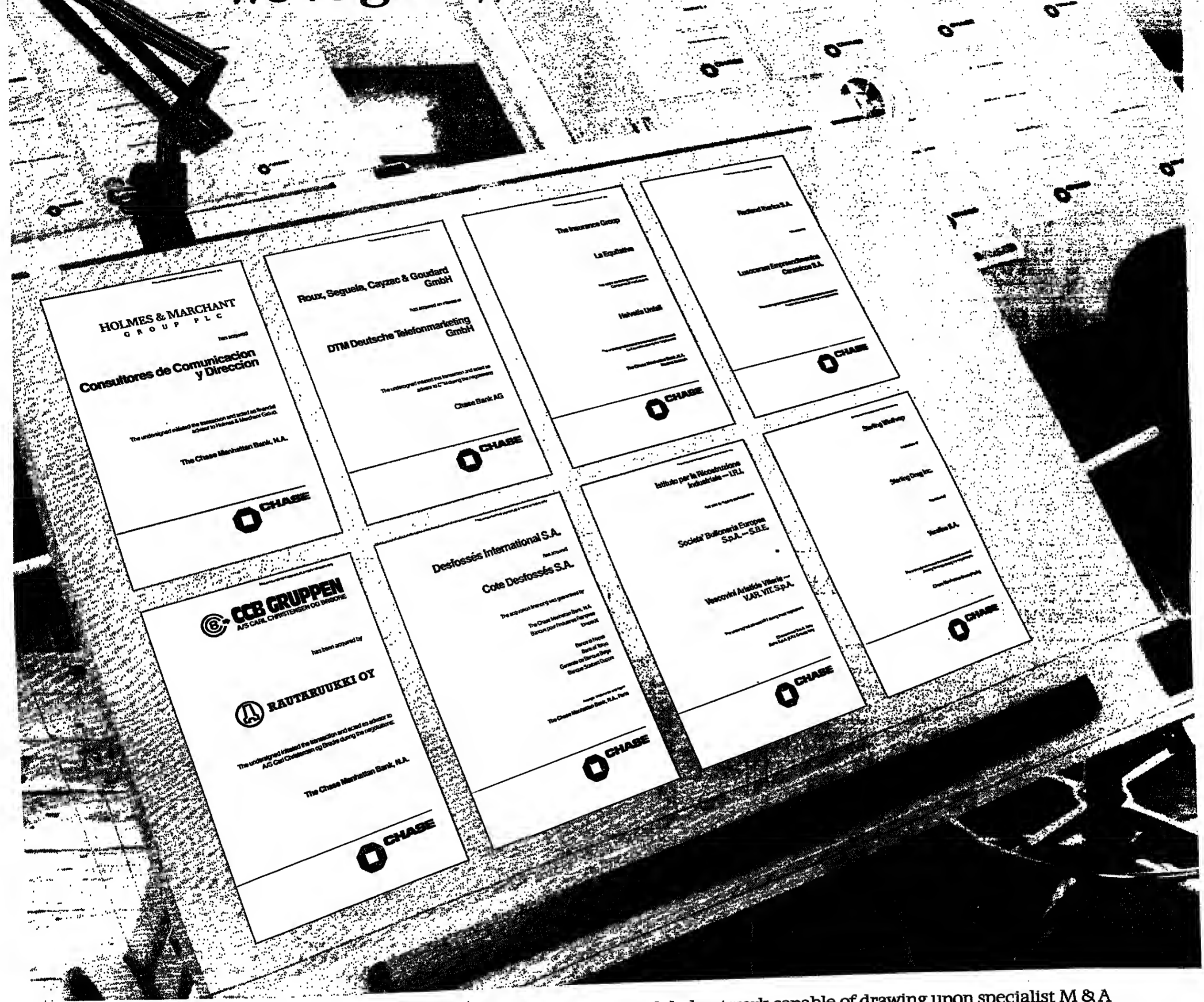
Issue Price 100 per cent.

Yamaichi International (Europe) Limited

IBJ International Limited Kyowa Finance International Limited
Nomura International

Barclays de Zoete Weid Limited James Capel & Co. Limited
Deutsche Bank Capital Markets Limited Kleinwort Benson Limited
LTCB International Limited Merrill Lynch International Limited
J.P. Morgan Securities Asia Ltd. New Japan Securities Europe Limited
Nippon Credit International Limited J. Henry Schroder Wagg & Co. Limited
Société Générale Sumitomo Trust International Limited
Swiss Bank Corporation Wako International (Europe) Limited
S.G. Warburg Securities Yamatane Securities (Europe) Ltd.

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Contact Robert Hinaman in London on 726 7191 for further information.

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INTERNATIONAL COMPANIES AND FINANCE

Bond says media 'misrepresented' tribunal findings

By Bruce Jacques in Sydney

MR ALAN BOND, the beleaguered Perth businessman, has hit back at his critics and the Australian Broadcasting Tribunal with a paid-for announcement in Australian newspapers today and in international publications next week.

With a text headed "Dear Fellow Australians," Mr Bond admitted that this week's decision by the Australian Broadcasting Tribunal - that he is not a fit and proper person to hold broadcasting licences - has damaged his entire business empire.

But he said the tribunal's findings had been misrepresented because they had been complex, although the underlying facts were very simple.

Mr Bond went on to reject the tribunal's findings and restate, at length, his own version of the events which were the subject of a year-long inquiry.

"Not a shred of evidence has been produced in the tribunal's inquiry that I or anyone associated with me has ever interfered with the selection and presentation of news or other programmes on the Nine Network," Mr Bond said. "Nor would I ever attempt to do so."

"In fact, some of the most probing scrutiny I have been subjected to has come from Channel Nine journalists. They are free to act without fear or favour and clearly do so."

"The one positive thing to arise from these events is that serious shortcomings have been highlighted about the way in which the tribunal process is conducted."

"It is widely acknowledged that no other Australian should again be subjected to such a drawn-out process which results in such uncertainties, and therefore changes must be made to the Act. Ultimately, this can only be good for the broadcasting industry."

"My conscience is clear regarding my conduct and I intend to pursue every avenue open to me to clear my name. The matter... has been judged by a tribunal of three members who have decided that, after hearing evidence from both sides, most of whom supported my situation, they would disbelieve the evidence and decide that I was not a fit and proper person to hold a broadcasting licence."

"Not one of the findings handed down by the tribunal indicates that I have in any way damaged any fellow Australian."

"But the tribunal's declaration... has caused me great harm both personally and commercially. Its implications clearly go beyond the broadcasting industry and affect all my corporate activities in Australia and overseas."

"I have been a builder of businesses, a competitor for Australia worldwide. My companies employ more than 25,000 people. My achievements have been shared by many of them who have played an important part in those successes."

"I cannot accept that it is just when considering the totality of my achievements that these can be undermined by an administrative body which has effectively imposed a life sentence on me. I deeply regret that this stain on my reputation will endure until the tribunal's decision is set aside. I will not rest until it has been."

But even as he strongly defended himself yesterday, Mr Bond received further blows from two new quarters. Australian Ratings, the Australian credit rating group, and Thies Watkins, a major contractor at the still unfinished Bond University in Queensland.

In an update on its latest report, which downgraded Bond Corporation's credit rating to CCC, Australian Ratings said the company would have trouble meeting its debts even after the proposed A\$3.6bn (US\$2.55bn) sale of its breweries to a subsidiary, Bell Resources.

The report said revenues from remaining operations in Bond Corporation appeared to be considerably below the levels needed to service remaining debt.

Debt servicing in Bell was also likely to be thin, and vulnerable to interest rate and currency shifts.

Australian Ratings said it had prepared the latest report in response to many subscriber enquiries. It said that, following the brewery sale, Bond could be faced with annual interest payments of about A\$450m and one-off property sale costs of about A\$100m.

A Thies spokesman said the dispute had continued for several months, and he hoped the work cessation would speed a solution.

Beleaguered NTT meets its public

Robert Thomson on frustrations aired at a Japanese annual meeting

The corporate things hired to ask awkward questions about financial fine detail at Japanese shareholders' meetings were not required yesterday at the annual gathering of Nippon Telegraph and Telephone, the country's largest company. In the past year, NTT's problems have been all too obvious - its former chairman and two other executives were arrested, the stock price has plunged by more than a third, and profits fell by 14.3 per cent.

With the front rows of a Tokyo hotel hall stacked with NTT employees ready to clap on cue, the beleaguered board was asked all the expected questions and a few others best described as idiosyncratic. A Mr Hamana complained that when he uses a public telephone to ring a broker to talk about his NTT investment, the phone is inevitably broken and his Y10 lost.

The most pressing problem yesterday was that small investors who invested in the privatised company are losing a lot more than Y10. After the meeting, a 34-year-old Setagaya woman explained that she had bought 10 shares at Y1.5m (\$17,500) each, and with the price now at Y1.5m, is well down on the deal. She said the board "did not respond properly to the questions."

In all, informing the 1.54m shareholders about the meeting, attended by 445 of them, hiring hotel halls, and stationing NTT staff every few metres from the nearest station to the hotel to shepherd stray stockholders to the right room cost the company Y500m. For some, the meeting was a rare opportunity to give public voice to deep private frustrations.

A Mr Kamiyama asked the assembled board: "I wonder if the company sales force are tackling their task with high esteem and high enthusiasm - I don't think so." Several questioners compared NTT unfavourably to British Telecom in its treatment of stock holders, and others wanted to know what responsibility was being taken for the former executives' involvement in the Recruit financial scandal.

Apologies were humbly offered for the involvement with Recruit, which has leased high-speed data transmission circuits from NTT and leased them out to clients. As a result of the Recruit connection, Mr Hisashi Shinto, the former NTT chairman, and two other former executives are awaiting trial on charges of bribe taking. The board argued yesterday that the arrests involved "individuals" and not the company, but directors decided to cut their pay packages by 15 per cent anyway.

Shareholders were particu-



Hisashi Shinto: awaiting trial

larly concerned by reports that the company will be broken up, and the impact that would have on the already diminished value of their holdings. Then there were frequent complaints that the company is merely a captive of the Ministry of Posts and Telecommunications, now examining the break-up option, and the Ministry of Finance, which holds 76.5 per cent of NTT stock.

Several questioners compared the shareholders' plight to a locally famous case of trusting pensioners who were swindled several years ago by a shady investment company. Later, the head of that company was hacked to death by

Stir at Elders as shareholders advised not to sell holdings

By Bruce Jacques in Sydney

DIRECTORS OF Elders IXL, the Australian brewing and agribusiness giant, yesterday set speculation running by telling shareholders not to sell their scrip pending a further announcement.

The directors would not comment on the mooted announcement, but said they decided to make yesterday's statement after a board meeting in London.

With Mr John Elliott, the chairman, also in London, analysts were speculating that the announcement may concern Elders' stalled plans for a separate float of its brewing operations. Another theory was that it may concern intervention by Elders in Goodman Fielder Wattle's A\$1.8bn (US\$1.36bn) takeover bid for Industrial Equity, the Sydney-based investment house.

Elders is also in the middle of a complex scheme which has the potential to give Harlin Holdings, a company controlled by Mr Elliott and other executives, an interest of up to 60.25 per cent in the company.

The scheme involves an issue of Elders shares, held by Goodman Fielder Wattle and AFP Group, to existing shareholders at A\$3 each. It has

been given a conditional "fair and reasonable" tag by First Boston Australia, a subsidiary of the US investment bank.

Last night's announcement said that the shareholders' meeting called to approve that deal has been delayed from July 5 to July 29 to allow shareholders to consider "material information" expected soon.

Elders is also waiting for approval from the Canadian authorities of its proposal for a merger between its Carling O'Keefe brewing group and industry colleague The Molson Companies.

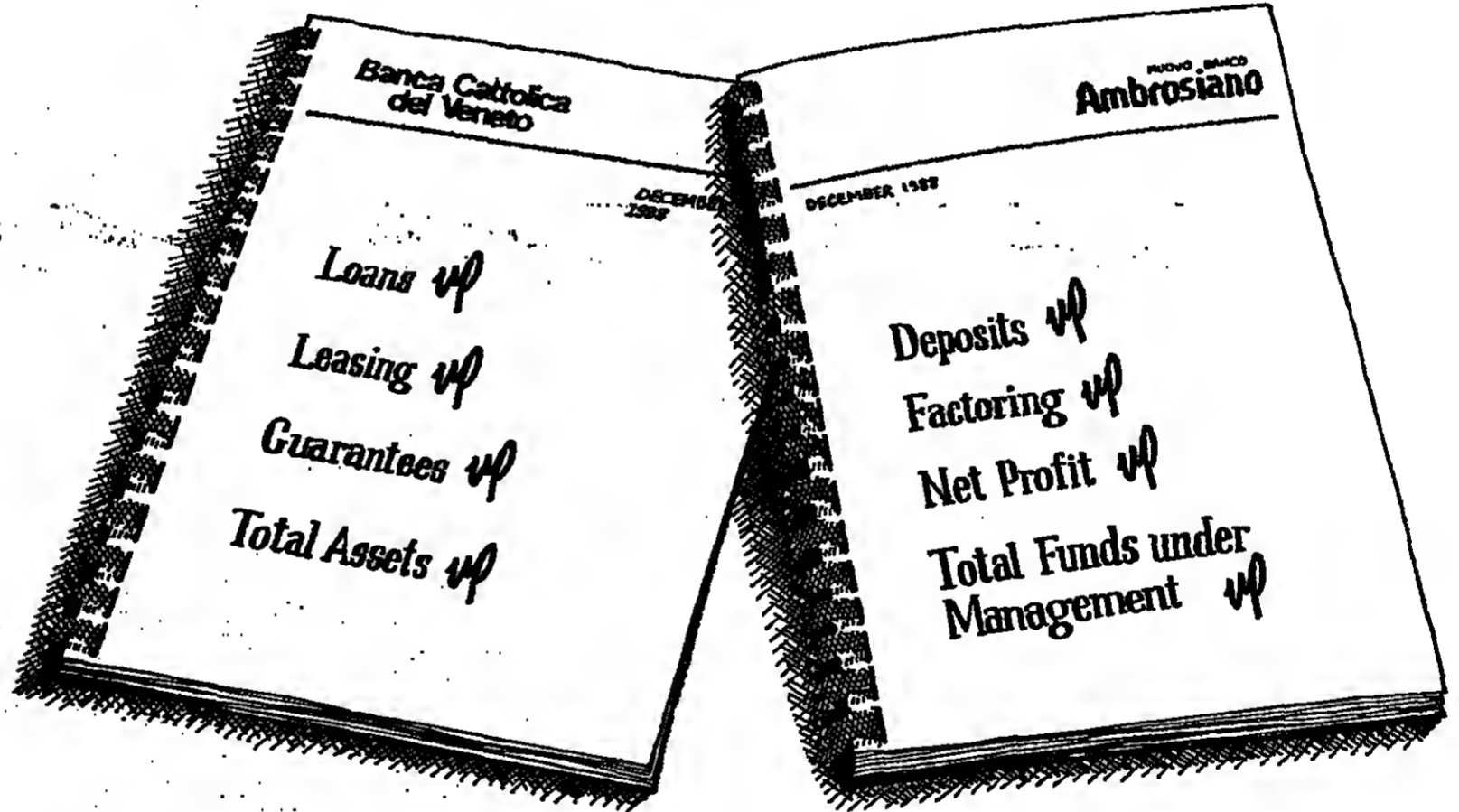
Elders shares rose 1 cent to A\$2.67 on light turnover on Australian stock exchanges yesterday.

Agencies add: Mr Paul Collins, the chief executive of Brerley Investments, the New Zealand-based investments group, says he believes that rumours of Adelaide Steamship preparing to outbid Goodman Fielder Wattle for Industrial Equity are untrue.

"There have been rumours about Adsteam possibly building a stake, possibly making a bid. I've heard these, and from our enquiries they're unfounded," Collins said.

Two banks, two reports

NEXT YEAR WE'LL BE ONE BANK



For both banks, 1988 was a good year with results above the national averages.

Nuovo Banco Ambrosiano and Banca Cattolica del Veneto were originally founded nearly 100 years ago. Both have grown with strong roots in their local communities and now cover the main areas of economic activity in Northern and Central Italy. Together they have 337 branches and this number is steadily increasing.

Entities. Opportunities have been taken however to work together on a wide range of projects. This has included the creation of a number of jointly-owned companies covering a comprehensive area of banking and financial services.

The boards of both banks are now planning to merge. This will be the first merger of major banks in recent Italian banking history. The resulting entity will become one of Italy's largest banks and will, of course, offer the complete range of banking and financial services of its subsidiaries.

Although linked as regards ownership, they have, up to now, operated as separate

Panoco settles its oil dispute with Nigeria

By William Dullforce in Geneva

PANOCEAN OIL Company has settled a four-year dispute with Nigeria and resumed its purchases of crude oil from the Nigerian National Petroleum Corporation (NNPC), the Swiss-based company said yesterday.

The dispute, during which a US oil company executive and two Swiss security guards were held in a Nigerian jail for five months, erupted when NNPC stopped supplying Panoco with 150,000 barrels a day of crude oil in July, 1985.

NNPC said Panoco was suspected of selling the oil to "non-recognised countries," a term applied to South Africa and Israel.

Panoco said the oil was being sold to Shell International Trading which confirmed it had a contract to buy 150,000 b/d from Panoco and that none of it was going to areas prohibited by Nigeria.

Mr Vittorio Fabbri, Panoco's chairman, refused to pay \$134m due to NNPC for deliveries made in 1984, until the Nigerians fulfilled their contract.

Panoco said yesterday that arbitration proceedings had now been "amicably terminated" and it had just signed a new agreement with NNPC for the purchase of 60,000 b/d of crude over the next three years.

The crude would be processed in the US.

Under the terms of the settlement, Panoco said it had agreed to pay "certain sums relative to previous oil liftings" to NNPC.

The payments will be made under the terms for the sale of oil under the new contract.

Mr Herbert Rooks, the American president of Panoco incorporated, a Geneva-based oil services and management company, was arrested together with Mr Sylvain Stragiotti and Mr Michel Pignet, two Swiss citizens, in Lagos in 1987.

Nigerian newspapers reported that they were being held as "witnesses."

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June 30, 1989, London
By Citibank, N.A. (CSI Dept.), Agent Bank **CITIBANK**

Banca Cattolica del Veneto

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INTERNATIONAL CAPITAL MARKETS

World Bank taps Canada dollar sector for C\$150m

By Katharine Campbell

THE CANADIAN dollar sector was tapped for the second time this week with C\$150m 10-year issue for the World Bank. While the deal was well received, market traders reckoned lead manager IBJ International had had to heavily subsidise it in order to come by a favourable swap rate for the borrower.

With a 10% per cent coupon, the paper was issued at a spread over Canadian government bonds of 56 basis points. It was around six basis points narrower than the deal at the beginning of the week for OKB, apparently reflecting the quality of the borrower.

Dealers commented that, on the supposition that the World Bank's swap rate target would be 80 basis points or better below the London interbank offered rate, IBJ's subsidy would have been in the order of 25 basis points.

Meanwhile, in the US dollar sector, Japan Development Bank brought a five-year \$200m issue, which was again suggested by the lead manager, in this case Bank of Tokyo Capital Markets.

Carrying a Japanese government guarantee the deal apparently went well, helped during the afternoon by a surge rally in the US government bond market.

Despite initial nervousness on the announcement of a coordinated rise in European interest rates, expectations of

favourable news issuing from the next National Association of Purchasing Managers survey cheered Treasuries and helped the issue along. A five-year dollar floating rate note for Mellon Bank Corporation, issued in the amount of \$200m with a coupon paying

INTERNATIONAL BONDS

A 20 basis point margin over Libor, apparently suffered initially from some confusion over the status of the deal. Kilder Peabody, the book-runners, said it had confirmed with the US authorities that the issue would count as senior unsecured debt for capital purposes. Some market participants were apparently worried the paper might count as subordinated debt. It was quoted at 99.70 bid within fees of 40 basis points.

A 15-year \$100m subordinated debt convertible for US advertising agency Omnicom Group met with a firm reception, lead manager Morgan Stanley said. It fixed the coupon at 6.5 per cent yesterday.

With Tuesday's closing prices on the Nasdaq-quoted shares at \$23, the conversion premium was 21.7 per cent. The holder has a right to put the paper at par to yield 9.00 per cent in seven years time.

Omnicom recently took over UK agency and marketing ser-

vice Boesse Massimo Pollitt. The lead manager said most interest had been shown by UK and Swiss investors. It quoted a price of par on the bid side of the market.

Meanwhile in the equity warrant sector, Mitsubishi Petrolchemical Company issued a \$200m global placement. Nikko Securities led the European tranche in the amount of \$20m. Yamachi International (RIK) brought the \$100m Asian tranche. The indicated coupon is 5.00 per cent and will be set on 5 July. Yesterday's trading level was quoted as less than 1/2 to the par issue price, indicating a healthy reception, given total fees of 2 1/2 per cent.

Shimizu Corporation issued a \$700m four-year deal with warrants attached, with an indicated coupon of 4.5/8 per cent. Terms will be set on July 5. It was trading at 1/2 per cent above the par issue price and the lead manager said the deal had been very well received.

Eisewehr, Bankers Trust's one-year A\$50m dual currency bond for Credit Lyonnais offered a 21 per cent coupon, with redemption tied to the A\$ Belgian franc exchange rate. Clearly targeted towards retail Belgian investors, some market sources not involved in the deal commented that investors, attracted by the generous coupon might be overlooking the fact that they were in fact running a considerable risk by effectively writing an in-the-money option to Bankers.

London to cut dealing book to 50 stocks

By Stephen Fidler

THE name Savory, Millin had already disappeared from the letterheads before yesterday's announcement that it was ending market making in all but a selected group of stocks.

According to Mr Fritz Köhli, Swiss Bank Corporation general manager, the number of stocks in which SBC London would be made would shrink to about 50 from 300. The remaining stocks would include those in which Savory, Millin has had traditional research and market making strengths: construction, engineering and building materials. It would also continue to make markets in selected food stocks.

Although 90 jobs would go in the market making area, about 20 people would be found positions elsewhere.

Savory Millin had also done some success in building a European equities trading operation.

This international operation was built up by Mr Hugh Hughes, formerly of Wedd Duracher. Neither he nor Mr Robert Erith, formerly the senior partner of Savory Millin, were returning phone calls yesterday.

However, the bank did deny reports that losses of £19m had been incurred by Savory Millin already this year. "The losses incurred by SBC London's business in UK equities, after full allocation of all attributable costs, for the first five months of the current financial year amount only to a small fraction of this figure."

SBCI retreats from the City

Stephen Fidler on a shift in global strategy for the big Swiss bank

THE partial retreat of Swiss Bank Corporation International from the London equities market reflects a malaise affecting nearly every bank which has sunk money into dealing in UK securities.

In a statement yesterday, the bank explained its shift in investment banking strategy in the following way: "The financial services industry has undergone unprecedented change over the last few years, faster than we, or we believe most in the industry foresee."

Greater professionalism among users and investors "has caused the potential for commission earning in the old sense of the word in broking and bond markets to be greatly reduced."

No country had escaped these changes. But "because of the nature of the markets operating in London and the wholesale change in the regulatory environment here, the effects have perhaps been more dramatic in London than elsewhere."

In the narrow world of the UK equity market, all three big Swiss banks - and many of their competitors - have faced difficulties. Credit Suisse have been forced into retreat at Buckmaster & Moore. Union Bank of Switzerland, the largest Swiss bank, has made huge losses at Phillips & Drew, and SBC has suffered with its smaller investment at Savory, Millin.

However, Credit Suisse's foray into international investment banking through a link with the US securities house First Boston is older and has proved more successful than

either of the other two. With a mere half dozen or so Credit Suisse officials on the staff, Credit Suisse First Boston has not suffered from the clash of commercial and investment banking cultures



Andrew Large, executive shift in strategy

which have affected both US and SBCI and many other commercial banks.

Investment bankers tend to earn higher salaries than their commercial banking counterparts, something which might have been acceptable if the investment banking arm was profitable. Amid significant losses for the investment banking arm, however, there was a significant tension, particularly given the commercial banking arm's historically strong international connections.

The bank's London investment banking arm lost £21m

last year, and Savory Millin, since subsumed into SBCI London, accounted for £2m. The SBCI company in New York recorded a \$20m loss and the Hong Kong and Tokyo operations a \$5m loss.

Causing further difficulties for its international operations were the problems connected with Co-op, the German retail concern. Although the Bank says only one quarter of one per cent of the bank's balance sheet is tied up in the Co-op issue, its strong international reputation took something of a battering.

If losses in the London share market and culture clashes are not a particular Swiss problem, the Swiss banks face a changing environment at home which could make their lives more difficult. Furthermore, over the last two years, Credit Suisse, the third largest bank, has stolen something of a march over the other two banks in the capital markets business, attributed partly to the efforts of Mr Hans-Jörg Rudloff, now head of CSFB in London.

It is also suggested, though denied that shareholder pressure is also growing on the affected banks to sort out their international operations.

Like others, Swiss Bank now sees opportunities in the restructuring of corporate Europe ahead of 1992. Its new strategy involves the strengthening its corporate finance arm. New operations will be created in Spain and Italy while an investment company will be established in the UK and other countries to hold equity investments over the short to medium-term.

In Italy, the bank has taken a 70 per cent stake in M & A

Societa, a corporate finance boutique based in Milan. In Spain, one new company will be responsible for mergers and acquisitions and another on equity underwriting and distribution. In France, its holding in Banque Stern in Paris has been increased to 100 per cent.

The primary and secondary trading of equities will be combined in both Europe and Far East, but the UK will not be emphasised.

The Treasury and fixed income department will be combined into one unit in London, and to the extent possible in New York and Singapore.

Supervision of international capital markets business will continue through London, although the distribution and trading of debt and equity will be carried out through local offices. Thus Frankfurt and Amsterdam will offer trading of domestic debt and equity in West Germany and Holland, in a change which will make no difference to staffing in London, according to the bank. Non-Japanese business will be transferred from Tokyo to Singapore, and dealing in US Treasuries have been transferred to a separately incorporated New York subsidiary.

The changes represent a significant shift in a strategy largely mapped out and executed by Mr Andrew Large, the Briton who announced in May that he would leave the bank when his contract ran out next year. Mr Fritz Köhli, general manager and member of the executive board of Swiss Bank in Basel, said the dismantling of Mr Large's creation, SBCI, was not the reason for Mr Large leaving. In fact, Mr Large had played his part in mapping out the new strategy.

NEW INTERNATIONAL BOND ISSUES

Table with columns: Issuer, Amount m., Coupon %, Price, Maturity, Fees, Book runner. Includes entries for Japan Development Bank, Swiss Bank Corp, etc.

FT-ACTUARIES SHARE INDICES

Table showing indices for various sectors like British Funds, Industrial, etc.

EQUITY GROUPS & SUB-SECTIONS

Large table listing various equity groups and sub-sections with their respective values and changes.

FIXED INTEREST

Table showing fixed interest rates for various terms and currencies.

Suez Finance sets price

THE EXERCISE price for the warrants attached to the \$200m five-year Eurobond being issued by Suez Finance, the Dutch arm of the French Suez banking group, has been set at 100, Reuters reports.

The warrants are exercisable into shares of the parent holding company, Compagnie Financière de Suez, which is guaranteeing the deal. The exercise price represents a premium 4.40 per cent over the share price at the time it was

Dutch to ease banking curbs

THE DUTCH Government is to remove curbs on Dutch banks and insurers barring them from investing in each other's equity and limiting their rights to co-operate with rivals abroad, Reuters reports.

Mr Onno Ruding, Finance Minister, said the Government intended to cancel the so-called "structural policy" from January 1 1990. The curbs have been in force for the past nine years.

Danish bank innovation

By Hilary Barnes in Copenhagen

AN IMPORTANT innovation in Danish banking will take place this autumn when SDS, the country's largest savings bank, converts itself into a limited company.

SDS, currently self-owned, will adopt a holding company structure, which means the group will be able to diversify into other financial service industries besides banking.

It will be the first Danish bank to do this, although the large insurance companies have already adopted holding structures enabling them to diversify into banking and other financial services. The SDS share offer, with a nominal value of Dkr1.6bn (\$210m), will be Denmark's biggest so far. It will take place in September.

RISES AND FALLS YESTERDAY

Table showing rises and falls in various market indices.

LONDON RECENT ISSUES

Table listing recent issues in the London market, including company names and amounts.

FIXED INTEREST STOCKS

Table listing fixed interest stocks and their market performance.

RIGHTS OFFERS

Table listing rights offers for various companies.

LONDON TRADED OPTIONS

Large table showing London traded options for various stocks and currencies.

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UK COMPANY NEWS

BPB cautious after rise to £202m

By Andrew Taylor, Construction Correspondent

BPB INDUSTRIES, currently facing its first serious competition for almost two decades in the UK plasterboard market, increased pre-tax profits by 11 per cent to £202.3m in the 12 months to March 31.

BPB shares yesterday rose 7p to 236p despite a warning from Mr Alan Turner, chairman, that profits were likely to be flat and could even dip slightly this year.

"We face additional costs in the current year as reorganisations in the UK and France are completed. These will substantially reduce our cost base and enable us to maintain margins should we need to reduce prices," he said.

In the UK, BPB is facing competition from Knauf, a West German group which earlier this year opened a plasterboard plant in Sittingbourne, Kent, and from Redland, the UK group, and CSR of Australia which plan to open a plasterboard plant in Bristol later this year.

Mr Turner said more efficient working practices, involving the loss of about 500 jobs in the UK, had been agreed with the workforce. The introduc-

tion of the scheme will cost the company about £6m in the current financial year.

He said improved efficiency together with the re-build of the hoard mill at Purfleet would, if necessary, allow the group to cut prices by 10 per cent without reducing profitability.

Costs would also be higher this year in France where BPB plans to rationalise its business following the acquisition of Henry et Cie. This increased BPB's share of the French market to about 55 per cent.

"Our aim is to maintain our

position as market leader in the western European plasterboard markets which we expect to double in size in the next 10 years," said Mr Turner.

Building material profits rose from £141.9m to £152.8m despite a combined fall of 18 per cent in Canada and France.

Paper and packaging profits rose from £26.9m to £28.5m.

Group turnover rose 10.5 per cent to £960.8m, while earnings per share increased from 28.8p to 32.2p. The proposed final dividend of 7p makes a total of 10.75p (8p) for the year.

See Lex

Danish counter-bid welcomed by BMT

By David Barchard

NYKREDIT, the Danish mortgage company, yesterday dealt a potentially fatal blow to the National Home Loans Corporation's bid for Business Mortgages Trust.

Nykredit, which already has an 18.2 per cent stake in BMT, is to offer 77p cash per share for the rest of the group, valuing it at £116m.

Mr Andrew Davison, BMT chairman, said yesterday that the board unanimously recommended shareholders to accept the offer.

However, the offer puts a damper on the hopes of making its first ever acquisition at a time when it is eager to diversify out of the residential property market.

Three weeks ago, NHEL bid £10m for BMT after acquiring a 29.9 per cent stake, offering two new NHEL shares for every three BMT. NHEL yesterday refused to be drawn on the Nykredit offer. "We are considering our position," said Mr Davison.

Mr Davison, general manager for finance and development, said that he hoped that all existing BMT staff would remain with the company if its bid succeeded and that existing employment rights would be fully safeguarded.

This month BMT set the seal on its recovery by declaring pre-tax profits of £3.6m for the year to March 31, compared to a loss of £2.9m the preceding year which included provisions of £5.2m against bad debts.

Mr Lars Ole Wertz Nielsen, Nykredit general manager, said yesterday that his firm regarded BMT as a very good fit for its operations in the UK mortgage market. Nykredit established a London office a year ago and specialises in commercial lending, using Danish mortgage bonds.

Mr Nielsen said that the Bank of England, whose approval is required because of BMT's status as an authorised deposit-taker, and the Danish regulatory authorities had given their consent for the bid to go ahead.

Stena and Tiphook agree to talks with Sea Containers

By Andrew Hill and Kevin Brown

STENA, the Swedish ferry company, and Tiphook, the UK container rental company, have agreed to talk with Sea Containers next Tuesday about their £82m hostile bid for the ferry and container group.

A letter sent to Sea Containers yesterday said they were "prepared to offer realistic and competitive pricing", but added "we do not believe the values of the alternative transactions described by you to the press are realistic."

Temple Holdings, vehicle for the joint bid, has also agreed to sign a standstill agreement, which would prevent the two companies from adding to the 7.1 per cent holding Stena has in Sea Containers. The length of the agreement would have to be negotiated by lawyers.

But Sea Containers' belligerent president, Mr James Sherwood, shows no signs of toning down his furious legal defence of the group.

As Temple's letter accepting Mr Sherwood's offer of talks was on its way, Sea Containers

was charging Stena and Tiphook with circulating false statements "in a deliberate attempt to drive the market price of Sea Containers' common stock down". It has filed court papers in the US alleging violations of the 1934 Securities Exchange Act.

Temple calculated the value of Sea Containers at \$56 a share earlier in the week on the basis of Sea Containers' amendments to its Securities and Exchange Commission filings in New York. But Sea Containers said yesterday that JP Morgan, advising Stena, had got its arithmetic wrong.

Sea Containers' shares have slipped back from more than \$70 last week, to around \$65 each, compared with Temple's offer price of \$50 cash.

At a press conference in London, Mr Sherwood said Temple's valuation of Sea Containers at around \$56 a share was "so far out of the ball park as to be totally absurd."

Mr Sherwood said the Sea Containers board would come

up with a capital reconstruction or leveraged buy-out if Temple raised its bid to between \$75 and \$100 a share.

But he refused to put a precise value on the group, or to indicate at what point a leveraged reconstruction or buy-out would be triggered.

"If Stena and Tiphook took over the company they would dismiss the entire staff of Sea Containers. They already have their own staff and they don't need two sets of staff even though ours are better," Mr Sherwood said.

Sea Containers is expected to give full details of its defensive proposals in around three weeks' time. Meanwhile, the company is sitting on a \$7m paper profit on a 23 per cent stake bought in by one of the group's subsidiaries before the bid announcement. Next Tuesday's meeting will take place the day after the Bermuda Supreme Court begins a preliminary hearing into Temple's legal action against those subsidiary share purchases.

Isosceles publishes Salomon assumptions

By Nikki Tait

ISOsceles, one of the two rival bidders for Gateway, Britain's third largest food retail group, yesterday published the assumptions used by Salomon Brothers, the US investment bank, when it put a valuation on the equity element in Isosceles offer.

The equity element is critical to the bid situation. Isosceles is offering only 230p per Gateway share in cash and cannot increase this while rival bidder Newgateways has offered 237p a share and hinted that it might go higher. However, Isosceles also has a cash

and paper alternative, within which the cash element is 215p based on the Salomon valuation, the equity element is said to be worth 30p to 35p a share. If so, this alternative would be worth 245p-250p per Gateway share.

Yesterday's lengthy statement from Isosceles, explained that the valuation depended on determining an expected value for Isosceles' ordinary shares between 1991 and 1993 and discounting this value to calculate a present value.

The Isosceles preference shares have been valued by discounting the expected future cash-flows from dividends and redemption. Gateway shareholders are being offered units made up of three ordinary shares and nine preference.

On the preference shares, Salomon used discount rates of 18 to 21 per cent, resulting in a value of 178p to 200p per share. On the ordinary shares, it was approximately 30 per cent, arriving at values of £14.70 to £17.30 for each ordinary share. The long methodology set out

last night gives no indication of expected profits of Isosceles nor the multiple on which its shares are assumed to trade.

The bidder does, however, defend the earlier statement from its brokers Pamure Gordon, which said that each Isosceles unit was worth not less than 15p per Gateway share.

"This minimum valuation primarily reflected the financing structure of Isosceles offer, being the price at which institutional shareholders in Isosceles will subscribe for units," it says. "It did not purport to be an estimate of the price which the market could be expected to hold in market trading."

Meanwhile, Associated British Foods, which has already sold a 15.1 per cent stake in Gateway to Isosceles said it will make a £29.1m profit over the investment book value, which will be treated as an extraordinary item. It has previously written down the value of its Gateway shares since they were acquired.

See Lex

Steeley raising £20.7m in novel French issue

By George Graham in Paris

STEELEY, the UK construction materials group, is to raise £20.7m of fresh capital in a novel issue tapping the French stock market.

The company is to obtain a listing on the Paris stock exchange next month, and has issued new shares for a placing with French investors, the US investment bank, when it put a valuation on the equity element in Isosceles offer.

ing aggregates groups, will place 4.7m shares with French institutions at 436p.

The issue is thought to be only the second pure equity offering on the French market since the crash of October 1987.

Elf Aquitaine, the state-owned oil group, launched a £23.3m rights issue in April, but other French companies tapping the market have either issued convertible bonds or sweetened their share issues with warrants.

The placing is led by Warburg France with the backing of a syndicate of French banks. Steeley, whose subsidiary Garon is one of France's lead-

ing aggregates groups, will place 4.7m shares with French institutions at 436p.

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Caledonia doubles to £25.6m

By Edward Sussman

CALEDONIA INVESTMENTS, the investment group controlled by the Cayzer family, doubled pre-tax profits from £12.5m to £25.57m in the year to March 31. The previous year's figure was struck before an exceptional credit of £3.83m.

A final dividend of 6.5p raises the total by 43 per cent to 10p (7p). The increase, which exceeded analysts' expectations, helped move Caledonia's shares ahead 9p to 372p.

Mr Peter Buckley, chief executive, said Caledonia had continued to move forward cautiously, with an eye towards the long term, since the sale two years ago of most of its stake in British & Commonwealth Holdings, the financial services company. About 60 per cent of Caledonia's net assets of £42m remain in cash or B&C preference shares.

New investments in the past year included the purchase of a 6.4 per cent stake in Christie's International, the art auctioneer, and the acquisition of a 45 per cent stake, for £5m, in Abacus Self Storage.

B&C's contribution toward investments has risen from £10.7m to £21.3m. Operating profit of trading subsidiaries was £16.6m, down from £17.2m, but this was skewed by the removal of Urquhart Engineering from the contribution following its sale.

Earnings per share rose to 19.56p, against 9.11p, excluding last year's exceptional item.

come from the redemption of B&C preference shares, but no one is quite sure where the one-time shipping fortune will land. Management is adamant that it will not be built by the markets into rising the family jewels on flashy short-term investments. And with interest rates as high as they are, Caledonia is in no mood to move its cash prematurely. To date, investments such as Close Brothers and English & Scottish Investors are performing well, but most of the big decisions have yet to be made. Net asset value of 532p per share, against 500p a year ago, means the shares trade at a 30 per cent discount. With the long term the most important consideration to Caledonia, that is not likely to be significantly narrowed any time soon.

DIVIDENDS ANNOUNCED

Company	Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
Agrey 5	4.1	-	3.5	5.49	4.75
Avoco	1.125p	-	0.75	1.125	0.75
BPB Industries	7	Aug 18	8.9	10.75	8.5
BTP	4.5	-	3.95	5.2	5.2
Budget	2.67	Jan 5	2	8.67	3.5
Caledonia Inv	6.5	-	4.5	10	7
Courts (Furnish)	3.17	-	3.15	5	4.82
Crosby (James)	1.4	-	1.4	3.5	2
Dunelm Ltd	4.125	-	3.75	7.125	6.265
Dowry Group	4.81	-	4.2	9	7
Greycoat	2.5	Oct 2	2	4.5	3.8
Harmony Leisure	0.1681	Sept 22	0.14	0.168	0.14
London Sacs	0.5	Sept	0.5	3.75	0.5
Savills	2.625	Sept 2	1.75	2.5	2.25
Stoddard Sellers	1.95	-	2	2	2
Sutcliffe Speak	2	-	2	2	2
TSB Group	2.85	-	2.58	-	5.2
United Indus	1.81	Oct 2	1.2	3	1.2
Virent Group	3.45	Oct 1	2.78	4.9	4
Visteo Group	0.14	Aug 9	-	0.1	-
Walker & Staff	3	-	2.5	3	2.5
Waverley Cameron	0.71	-	0.263	1	0.263

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issues. †On capital increased by rights and/or acquisition issues. ‡SUM stock. §Unquoted stock. ¶Third market. ††For 70 weeks. †††For six months. ††††For 15 months. †††††For five months.

Greycoat assets boosted by rise in property values

By Andrew Hill

GREYCOAT, the property development and investment group, increased its net asset value from 404p to 523p in the year to March 31, up 29 per cent on the back of increases in the value of West End office property.

The value of Greycoat's office investments in the West End and central London rose by 37 per cent during the year, and its City office portfolio by 12 per cent. London offices account for 82 per cent of the total value of Greycoat's properties.

The group's profits rose to £21.7m before tax, against £17.1m in 1987-88 and earnings per share increased 20 per cent to 23.4p (19.5p). Greycoat is recommending a final dividend of 2.5p making 4.5p (3.6p) for the year.

Craton Lodge into red with £587,000 loss

By Ray Bashford

CRATON LODGE & Knight has been placed in a financial bear hug by the Soviet Union in its effort to break into the country's market for new product development.

The company slipped into the red in the six months to March 31, returning a loss of £587,000 compared with a pre-tax profit of £75,000 last time.

The directors said were planning a major reorganisation which would centre on disposal of an undisclosed stake in CLK Marketing Services International, the principal arm for contact with the East.

The board has omitted an interim dividend. It paid 0.7p last time.

Adler close to selling Goode Durrant stake

By Ray Bashford

FAL, the Australian insurance company headed by Mr Rodney Adler, is believed to be at an advanced stage in negotiations to dispose of a 14.9 per cent stake in Goode Durrant, the industrial and financial company.

Mr Adler is expected to inform his London broker this morning from Australia whether the sale should go through.

FAL took the holding in September last year and there has been growing speculation that Mr Adler would sell it following the disposal earlier this month of the 13.2 per cent holding in Pearl Assurance.

The company, which has cash reserves of in excess of £20m, is believed to have a break-up value of about 170p a share.

Increase in higher value sales lifts Asprey profits

By Philip Coggan

ASPREY, the Bond Street jeweller, recorded its ninth successive annual profit increase in the year to March 31 with the pre-tax figure rising 13.8 per cent to £18.25m.

The company said that last year's decline in the US dollar was offset by the increase in higher value sales. The New York store, on Fifth Avenue next to Tiffany's, improved its contribution. Interest receivable rose from £1.185m to £1.7m.

Turnover was £62.04m (58.78m). After tax of £5.91m (£4.57m), earnings per share were 23p (21.31p). The proposed final dividend is 4.1p (3.5p), making a total of 5.45p (4.75p). The company is proposing a one-for-two scrip issue.

Asprey's products may on occasion be ostentatious - like the briefcase made of gold and silver in imitation crocodile style - but its trading statements are models of reticence. This belies a profits record which illustrates that the "cash for cash" philosophy of investors is not the only way to succeed in jewellery. As the fine art market is currently proving, there are plenty of rich people around at the moment and the recent surge of the dollar and the oil price can only help Asprey's sales to American tourists. In recent weeks, the Asprey share price has been bolstered by its inclusion in the FT All-Share index, which brought in the indexed funds. Accordingly, the shares are on a hefty p/e of 15.5, assuming pre-tax profits of £21m this year, at yesterday's price of 48p, up 5p. Although Asprey is unlikely to suffer the travails of the rest of the retail sector, the rating looks high enough.

Asprey profits

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BARCLAYS

NOTICE

to the holders of the outstanding £250,000,000 9½ per cent. Guaranteed Notes due 1993

issued by **BARCLAYS BANK FINANCE COMPANY (JERSEY) LIMITED**

(Incorporated with limited liability in the Island of Jersey, Channel Islands)

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of the principal Trust Deed dated 22nd August, 1985 and the Second Supplemental Trust Deed dated 6th April, 1988 (together, the "Trust Deeds"), both made between Barclays Bank Finance Company (Jersey) Limited (the "Company"), Barclays Bank PLC (the "Bank"), as guarantor, and Alliance Assurance Company Limited (the "Trustee"), as trustee, and together constituting the outstanding £250,000,000 9½ per cent. Guaranteed Notes due 1993 (the "Notes") of the Company, the Trustee has agreed with the Company and the Bank to the substitution of the Bank in place of the Company as principal debtor in respect of the Notes. Accordingly, with effect on and from 28th June, 1989, all the obligations of the Company under the Trust Deeds, the interest coupons appertaining thereto (the "Coupons") and the Trust Deeds (to the extent only that they relate to the Notes and the Coupons) have become the direct obligations of the Bank and the Notes are now known as the £250,000,000 9½ per cent. Notes due 1993 of Barclays Bank PLC.

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The Notes are not chargeable assets for the purposes of United Kingdom taxation of capital gains. Holders of the Notes should seek appropriate professional advice on the effect for taxation purposes of the substitution.

Copies of the Third Supplemental Trust Deed dated 28th June, 1989 made between the Company, the Bank and the Trustee giving effect to the substitution and making consequential amendments to the Trust Deeds, the Notes and the Coupons are available for inspection during normal business hours at the offices of the Paying Agents for the Notes set out below, together with copies of the Supplemental Paying Agency Agreement dated 28th June, 1989 making consequential amendments to the Paying Agency Agreement relating to the Notes. Copies of the amended Terms and Conditions of the Notes may be obtained from the same offices. The Bank will remain as Principal Paying Agent for the Notes.

PRINCIPAL PAYING AGENT

Barclays Bank PLC
54 Lombard Street
London EC3P 3AH
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Banque Internationale à Luxembourg S.A.
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Dresdner Bank Aktiengesellschaft
Jürgen-Fonto-Platz 1
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Federal Republic of Germany

Swiss Bank Corporation
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CH-4002 Basle
Switzerland

Dated 30th June, 1989

Budgens announces profits of £16.4m for 70 weeks

By Nikki Tait

BUDGENS, the supermarket group which was subject to an abortive £136m bid from another medium-sized food retailer William Low in March, yesterday announced pre-tax profits of £16.4m in the 70 weeks to April 29.

This compares with £13.5m in the previous 52 week period to December 28 1987 - the group's last full year, and £13.2m in the subsequent 53

weeks to January 1 1989. Sales in the 70 weeks rose to £381.5m, having reached £298m in the 52-week period. The company is in the process of switching from a calendar to an end-April year-end.

The 70-week trading profit figure was £19.5m, comprising £18.5m from food retailing, £888,000 from discontinued activities, £377,000 from dividends received, and £22.5m of

property profits. On the minus side, central costs took £27.7m. Net interest payable was £2.1m, compared with £2.15m in the previous 52-week period. This is after the capitalisation of gross interest of £278,000. Net debt at the year-end was around £31m.

Budgens split out comparable food retailing sales and operating profit figures for the years to end-April 1988 and to

end-April 1989. Sales rose 9.6 per cent to £289m on this annual basis. The percentage gain is made up of 3.3 per cent inflation, 2.2 per cent from new space and 4.1 per cent from like-for-like growth.

Operating profit from food retailing was £14.5m against £12.2m, suggesting that margins rose from 4.8 per cent to 5.2 per cent. Tax for the 70-week period is £4.7m giving

earnings per share of 14.02p. The final dividend of 2.67p net makes a total of 8.67p.

There is an extraordinary item of £1.5m on disposal of the confectionery division, further costs associated with the former bid for Gateway (then Dee Corporation) a year earlier and is a friend of Mr David Smith, Isosceles' chief executive, while Low shares Kleinwort with Isosceles.

It also seems that Budgens' financial picture as of April 1989 may not have been the lines of the few statements made to date suggests that projections into the current year and beyond are being blamed for the breakdown.

Attempting to unravel the bid's conundrums

Yesterday's figures from Budgens only compound the mystery surrounding the abortive bid for the supermarket group from fellow food retailer William Low two months ago, writes Nikki Tait.

Low announced a recommended offer for Budgens on April 21. The share exchange had an underwritten cash alternative of 154.2p. The deal was not greeted warmly and, embarrassingly, the sub-writing efforts flopped. A couple of weeks later, additional broking cloud was brought in for a second attempt to sub-underwrite the new Low shares and the situation appeared to be repaired.

Then, on May 13, Low announced abruptly that the deal was effectively off. With the support of merchant bank adviser S.G. Warburg, Low said it could not recommend the bid to its shareholders.

The only explanation provided was that "differences in expectations about the financing" had become apparent. The takeover Panel began, and is

continuing, to investigate. All parties are sworn to silence.

Yesterday, Mr John Fletcher, Budgens' chairman, added only one further, guarded comment. When asked to put in writing his reasons for pulling out, he said, Low had suggested that "their perceptions of the profits of the business would not have been achieved."

The cost to Budgens' shareholders has been heavy. Its share price, which had wilted during 1988, rose almost 2p to 151p on the bid. When the Scots backed off, it slid 8p to 110p, and has recovered only a little. Shareholders have been unhappy - not least Brierley Investments, which has held a 10 per cent interest in Low for some time, but built up a holding of over 7 per cent in Budgens during the bid.

The affair has always appeared to involve two inter-linked questions. The first related to Budgens itself and how seriously avert. When the second was how, in a non-hostile situation, Low could actually put a bid for

Budgens on the table - and thereby create certain expectations - only to decide subsequently not to proceed. With two reputable merchant banks involved - Warburg for Low and Kleinwort Benson for Budgens - it is difficult to understand why any information sought should not have been forthcoming. And if it was not, given no apparent time pressure, why did Low proceed?

The first question was at least partially answered yesterday. The figures, if far from pretty, contained no enormous surprises and were, moreover, both audited and unqualified.

On the critical balance sheet front, Budgens said borrowings averaged £27m over the 70-week period and will increase further in the current year in the face of the continued capital expenditure programme. It plans to spend £30m in the current year, against £44m in the previous 70 weeks. About £20m of that will go on seven new stores, and £10m on revamping some 25 existing stores.

The net effect, says Fletcher,

could be average borrowings of £26m in the current 12 months - which sits beside capital and reserves of £36.4m - although the figure might come down slightly by the next year-end.

Analysts greeted the figures with an air of unsurprised gloom. "However good the trading performance, earnings will be dogged by debt and interest payable, plus a rising tax charge," commented one. "The former is a problem - they have to spend to develop the business, but that will hold profits back." As a result, current year, estimates range around £15m pre-tax (inclusive of property profits) with earnings showing no enhancement on the calendar 1988 figure.

Critically, however, few pundits expressed much surprise at the borrowings level.

But this merely compounds the second mystery. Any substantial answer must await the Panel, which is excessively coy about saying how far it has progressed and declines to give any indication of the timetable. Given the delay, shareholders may be forgiven for wondering

whether the matter has gone beyond the executive, and now involves the full Panel - together with sensitive merchant banking reputations.

In the meantime, the background to the deal remains a very grey area. It does appear some took place between principals in March, but that the deal was finalised relatively quickly in the April week during which it was announced. This was also the week in which the Isosceles bid for Gateway was emerging - which may or may not be relevant, given that Mr Fletcher made a bid for Gateway (then Dee Corporation) a year earlier and is a friend of Mr David Smith, Isosceles' chief executive, while Low shares Kleinwort with Isosceles.

It also seems that Budgens' financial picture as of April 1989 may not have been the lines of the few statements made to date suggests that projections into the current year and beyond are being blamed for the breakdown.

UK COMPANY NEWS

In a disappointing first half total costs have risen sharply to 74.7% of income
TSB Group declines 22.4% to £164.5m

By David Barchard

TSB GROUP yesterday announced pre-tax profits of £164.5m for the half year ending April 30. The figures were 22.4 per cent down on last year's interim profits of £212.1m and were described as poor by Sir Nicholas Goodison, group chairman.

In a generally depressing balance sheet, the most striking feature was a sharp rise in costs to £662.8m (£459.2m).

Operating costs now stand at 74.7 per cent of income, well above those of all

the other large clearing banks.

The ratio was described as "unacceptable" by Mr Don McCrickard, chief executive banking. TSB hopes to bring the ratio down below 65 per cent in the coming year.

Total lending by the bank grew from £11.38bn at the end of October to £12.85bn. Mortgage lending grew from £4.86bn to £5.11bn, and other personal lending rose in the six months from £2.42bn to £2.54bn. How-

ever corporate and commercial lending rose from £3.25bn in October to £4.19bn. Leased assets went up from £934m in October to £969m.

Total income for the half year was £732.6m (£700.6m) of which net interest income was £429.8m (£426.4m).

Banking profits were down from £123.2m a year ago to £110m. Profits for the TSB banks were £39.1m (£106.5m) and £20.9m for Hill Samuel (£17.8m).

Profits on related banking

services were £17.5m (£20.4m) with UDT making £13.1m (£10.6m) and Trustcard £7.2m (£3.4m). The group's 196 -branch estate agency operation made a loss of £3.8m (£300,000 profit).

Profits on insurance and investment services dropped from £50.4m a year ago to £44.7m, though profits at TSB Trust rose to £34.4m (£31.8m).

Commercial activities returned a profit of £9.5m (£10.1m) with Swan National

contributing £4.5m (£4.2m), Noble Lowndes £3.2m (£4.7m), and Wescol, the group's shipping line, £1.5m (£1.2m).

Central interest payments on inter-group banking operations caused a loss of £17.5m (£2m profit).

Earnings per ordinary share fell by 23.1 per cent to 7p (9.1p), however the dividend per share went up by 10.5 per cent to 2.85p (2.58p). Dividend cover thus fell from 3.9 per cent to 2.4 per cent.

See Lex

All round growth helps Dowty profits increase 23% to £79m

By Vanessa Houlder

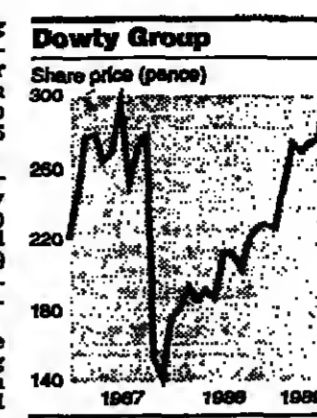
DOWTY GROUP, engineering and electronics company, yesterday announced a 23.4 per cent rise in pre-tax profit from £54.1m to £79.1m for the year to March 31. Turnover is up by 9.5 per cent to £684.1m (£624.6m).

Operating profits in the continuing businesses went up by 34 per cent to £79.9m (£59.5m) and the return on capital employed increased from 22.9 per cent to 26 per cent. Property profits contributed a further £5.8m.

The interest charge rose from £2m to £3m, after being contained by a strong cash inflow of £50.7m (£5.7m) and hedged interest rates. Borrowing at £2.2m was equivalent to gearing of 36 per cent (41 per cent of shareholders' fund and since the year end, it has received £26.5m from the mining and industrial hydraulics disposals.

The results of the mining division and the industrial hydraulics business, which have been sold to their managements, were included for the first half year only.

The disposals resulted in an extraordinary charge of £17.7m after tax, which reduced a discount on net assets, trading results since September 1988 and disposal and other costs. Mr Tony Thatcher, chief executive, said that the businesses weakened not only from the weakness of the marketplace



The order book in the continuing businesses increased to £662m (£591m) at the year end. Earnings per share increased by 12 per cent to 21p (18.7p). A final dividend of 4.5p (4.2p) was recommended, giving a total of 8p (7p) for the year, an increase of 14 per cent.

COMMENT

Dowty boasts - with reason - that the new management has wrought a sea change in the company's reputation. Certainly the sharp improvements in margins and return on capital have been well rewarded by an impressive re-rating. Until fifteen months ago, its perceived doze and vulnerability to the weak dollar ensured that it underperformed the market. Since then, it has advanced to a premium rating of 11.5, assuming pre-tax profits of £85m this year. Yesterday, however, saw a slight dip in the share price from 217.5p to 208.5p, reflecting a hint of disappointment about the information technology division's results and the size of the property profits. Nonetheless, analysts remained stoutly enthusiastic about the shares' medium term prospects. It has a check-full order book and - with the possible exception of the IT division - its businesses seem virtually immune to a downturn to the economy.

Commercial side provides lift as Savills hits £6.5m

By Philip Coggan

SAVILLS, the chartered surveyor and estate agent, yesterday reported a 53 per cent increase to £6.52m in pre-tax profits for the year to April 30 1989 despite static figures in the residential division.

A strong performance from the commercial division, which now contributes 65 per cent of operating profits, was responsible for much of the increase. The £2m raised at the time of Savills' main market placing a year ago also boosted profits by pushing interest receivable to £553,000 (£18,000 payable).

The commercial division made profits of £3.7m (£2.52m) on turnover of £15.09m (£9.54m). Commercial property under management amounted to £1bn and the proportion of revenue earned from professional fee income increased to 39 per cent.

The agricultural division increased profits to £1.27m (£940,000) on turnover of £7.5m (£5.95m). Savills sold some £198m worth of agricultural land last year, compared with £106m in the previous year.

The residential division reported profits of £224,000 (£222,000) on turnover of £8.57m (£8.27m). Two new offices were opened during the year, in Bath and Hampstead.

Savills said that the expensive end of the property market was relatively immune to the effects of high interest rates.

After tax of £2.42m (£1.61m), earnings per share were 12p (9.1p). The final dividend is 2.85p for a total of 3.75p (1p).

COMMENT

Savills is understandably keen to stress that most of its business is in commercial, not residential, property - even country house sales might start to dip if the UK plunges into recession. For the moment, the commercial market looks healthy although some (including the Bank of England and Savills itself) are worried about the debt levels of UK property companies. Foreign investment is helping prop up the London commercial market and the agricultural market is supported by the new-found popularity of blood sports amongst the moneyed classes. But with the contribution from interest receivable set to fall this year, and making prudent allowance for no more than break-even in the residential division this year, the group will do well to make £7.25m. The shares at 101p, down 4p, are on a prospective p/e of under 8, a fair rating considering the risks.

Sales slowdown hits Courts

By Maggie Urry

FURTHER EVIDENCE of difficult trading conditions for furniture retailers came yesterday from Courts (Furnishers), which announced barely increased profits for the year to end-March.

Pre-tax profits were up from £10.44m to £10.22m, including property profits of £1.6m (£1.5m). At the interim stage, profits had risen by 16 per cent to £4.5m.

Mr Bruce Cohen, managing director, said that UK sales had slowed sharply in the second half and particularly in the fourth quarter. After a sales gain of 3.4 per cent in the first half in the UK, second half sales were up 9.7 per cent.

He said the current year had seen "a continuation and

extension of the trends evidenced in the closing months". The group was now taking a "very cautious view in the UK, he said.

Margins had been hit by the need to sell-off foam filled furniture which did not meet the latest safety requirements at reduced prices. Mr Cohen said this cost about £500,000.

However, overseas sales, which had risen by 8.5 per cent in the first half, improved 23.4 per cent in the second half. Difficult areas such as Jamaica and St Lucia had bounced back, Mr Cohen said.

The transfer to deferred profit reserve, which relates to credit sales mainly in the overseas stores, was £750,000 compared to the exceptionally high level of £2.1m in the previous year. The total stands at £17.4m which will come through to profits in the next two years.

Profits were also held back by a £1.6m rise in the interest charge to £2.9m. Gearing was 54 per cent at the year end, Mr Cohen said. Net assets, boosted by a property revaluation, currently stand at £70.2m or 319p

a share.

Sales for the year were ahead 18.5 per cent to £144.41m. Earnings per share were 24.7p (24p) and a final dividend of 3.17p (3.15p) is proposed giving a total of 5p (4.82p).

COMMENT

Courts has some cushions to ease the discomfort of its UK business, where the double effect of higher interest rates hitting sales and pushing up interest charges is severe. Volume seems to have been significantly lower in like-for-like stores, given the rate of expansion during the year. That expansion has slowed though there are still costs to be met in the current year. The foam furniture set-back is non-recurring though, and with the overseas stores doing better, the bank of deferred profits and the property base chipping in profits too, much of the inevitable fall in UK retailing profits should be made up elsewhere. Courts will be lucky to match last year's profits in the current year, though this prospect is discounted in a price so far below asset value.

Vistec at £1.12m for five months

By Clay Harris

VISTEC Group, the USM-quoted computer services and supplies company which emerged from the debris of F&R Group, yesterday reported pre-tax profits of £1.15m from continuing activities on sales of £11.8m for the period from December 5 to April 30.

A dividend of 0.1p will be paid on earnings per share of 0.96p. There are no comparable figures, but discontinued cost-line operations made £129,000 in the latest period against a £4.61m loss in 1987-88. The latter figure, and losses carried forward from previous years, were eliminated by a capital reduction approved by the High Court in March.

Vistec's unsuccessful bid for DDT Group, a computer maintenance contractor eventually bought by Apricot Computers, resulted in a £30,000 extraordinary charge.

Vistec also announced the purchase of Level V Distribution, a specialist in microcomputer UNIX systems integration and UNIX products and services, for up to £2m in shares. The initial payment is worth £300,000 with further payments linked to profits to June 30 1990. In the year to June 1988, Level V made pre-tax profits of £20,689 on turnover of £798,576.

Separately, Vistec said it had bought out earn-out rights from a previous acquisition, 61 Computers Group, for £26,000 in shares. Under the original terms, the earn-out could have been worth up to £750,000 in shares.

of a share.

Sales for the year were ahead 18.5 per cent to £144.41m. Earnings per share were 24.7p (24p) and a final dividend of 3.17p (3.15p) is proposed giving a total of 5p (4.82p).

BTP rises 18% to £11.4m

By Vanessa Houlder

BTP, the specialist chemical and industrial group, yesterday announced a 16 per cent increase in pre-tax profits to £11.4m from £9.66m for the year to March 31.

It also announced the sale of its 50 per cent stake in DeSoto Titanium, a specialist manufacturer of coatings for aircraft, for £5.4m in cash. This sale was in line with BTP's strategy of withdrawal from the specialist coatings business.

The profits, which included a £1m exceptional property profit, were achieved on turnover of £97.1m, down from £107.9m. The net effect of acquisitions and disposals was to reduce turnover by £15m and operating profit by £700,000.

Mr Frank Buckley, chairman and chief executive, said that the results were particularly encouraging for a year of consolidation. A reinvestment programme was being undertaken, mainly in the chemicals market, which would produce full rewards over the coming financial year. The group spent £5.2m on acquisitions and new plant in the past year.

Profits in the chemical division increased by 24 per cent to

£7.55m. The industrial division reduced profits from £4.1m to £3.19m. Net interest payable fell from £1.19m to £774,000.

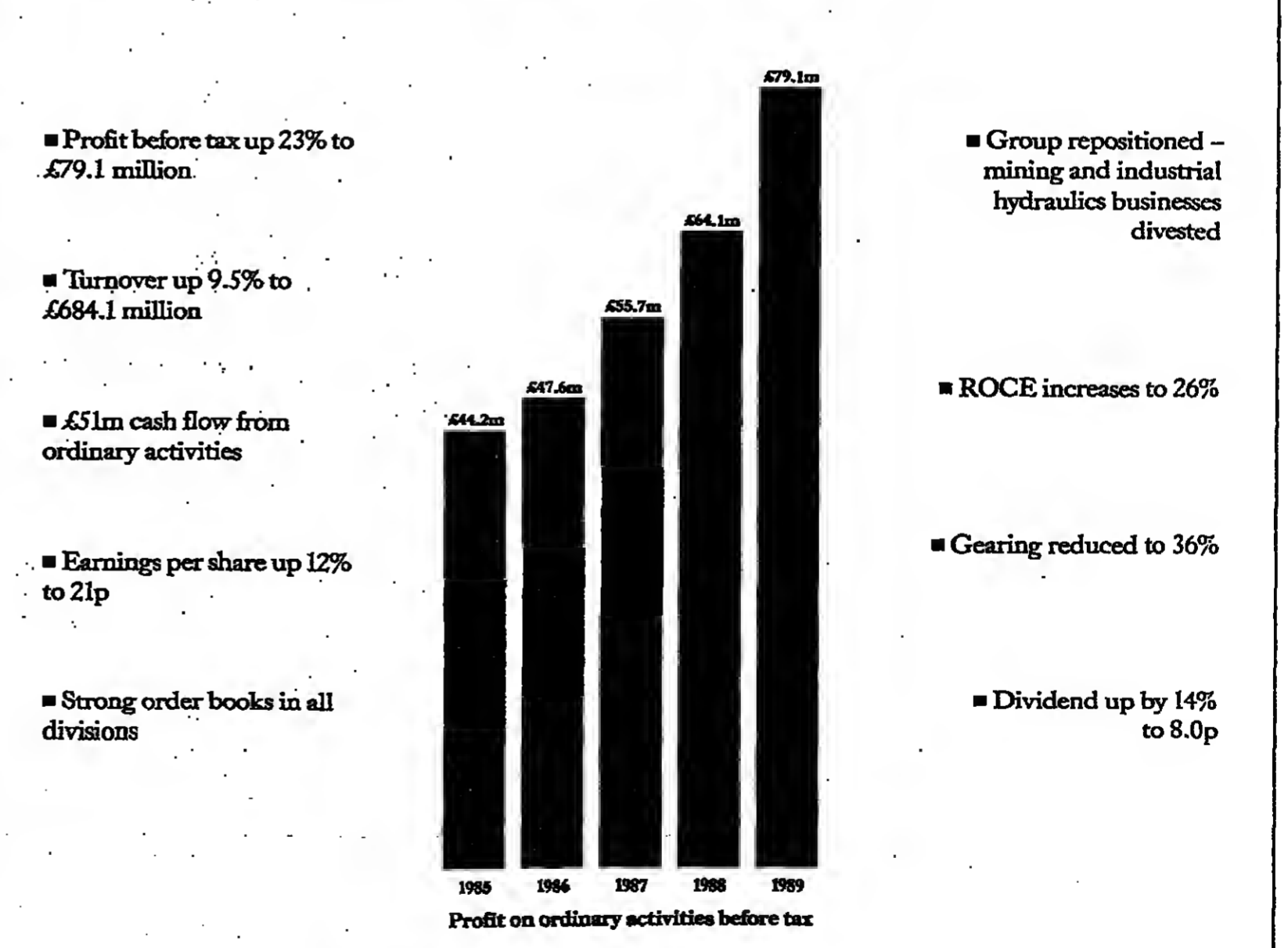
Earnings per share increased by 21 per cent from 10.58p to 13.21p. A final dividend of 4.5p has been recommended, making a total of 7p (6.2p) for the year, an increase of 13 per cent.

COMMENT

Yesterday's disposal added yet more fuel to power BTP's restructuring exercise. It is pulling out of the industrial markets where it lacks sufficient clout in favour of moving further into niche chemical areas - exemplified by its flame retardant finishing business. This strategy is generally welcomed by analysts who feel the company is sharpening its image and playing to its strengths. It is said, the main attraction of the share is less the promise of sharp earnings growth than the prospective yield of 7 per cent. After yesterday's results, which were bang in line with expectations, the shares were unmoved at 146p.

Assuming pre-tax profits of £12.5m this year, that puts them on a reasonable rating of 11.5.

Dowty profits rise 23%



This announcement appears as a matter of record only

BTR plc

has sold its subsidiary

NATIONAL TYRE SERVICE LIMITED

to

MICHELIN INVESTMENT LIMITED

for

£140 MILLION

The undersigned assisted in the negotiations and acted as financial adviser to BTR plc

HILL SAMUEL

MERCHANT BANKERS

June 1989

DOWTY

AEROSPACE - INFORMATION TECHNOLOGY - ELECTRONIC SYSTEMS - POLYMER ENGINEERING

If you would like to reserve a copy of the 1989 Corporate Review and Annual Report which is to be published on 4th August 1989, please write to The Company Secretary, Dowty Group PLC, Arle Court, Cheltenham, Glos. GL51 0TP. Tel: 0242 221133.

UK COMPANY NEWS

Vinten expands into Italy with £20m deal

By David Waller

VINTEN GROUP, a UK-based company which manufactures avionics and broadcast equipment, is expanding into Italy with the acquisition of the Manfroto Group, a manufacturer of photographic and video camera mounts.

The purchase price is £45m (£20m), which compares to Vinten's market capitalisation of £38m prior to the deal.

The transaction was announced yesterday as Vinten reported its figures for the year to the end of March. Pre-tax profits rose from £2.5m to £4.87m, an increase of 28 per

cent, on turnover up 17 per cent to £27.8m, while earnings per share advanced by 29 per cent to 11.5p to 14.9p.

The Italian acquisition is to be financed in part by the issue of shares to the vendors, and in part with the cash raised from a vendor placing. The placing - under which existing shareholders are to take up new shares on the basis of four for every nine held - will raise £14m, while the shares issued to the vendors will be worth £7m.

At the moment, Manfroto

consists of a group of ten family owned companies located in the North of Italy; these will be consolidated into one for the purpose of the acquisition. Collective turnover has risen from £7.96m in 1984 to £15.81m in 1988, while operating profits have climbed from £2.72m to £4.85m over the same period.

The figures for 1988 indicated a drop off in margins over the previous year, when the company made £4.17m on £13m turnover. This was blamed on a reorganisation of the group's manufacturing

facilities, according to Vinten, figures produced by Manfroto suggest that it has traded at record levels in the first five months of 1989.

Assuming the financial restructuring had taken place as at the end of last year, pre-tax profits for 1988 would have been £2.2m; at the same date, there would have been a pro forma deficiency of net assets of £5.5m.

Mr Bob Lawson, managing director, predicted that the deal would make a positive contribution to Vinten's earnings in the first year. He said

that Vinten had sold Manfroto's products under its own name for a number of years and that its business would make an ideal complement to its own broadcast division.

Yesterday's figures showed that this accounted for £12.27m of Vinten's turnover last year and £3.25m out of the total £5.33m operating profit.

The new shares are being offered at 154p against 168p on Wednesday's close.

Vinten's final dividend is to be 3.45p (2.75p), making a total of 4.9p (4p).

Caffyns' shares rise as Brierley takes stake

By Ray Bashford

SIR RON Brierley, the New Zealand businessman, has purchased 23.6 per cent of the ordinary shares in Caffyns, the Sussex-based motor dealer, through a three-pronged attack.

On Wednesday, IEP Securities, Sir Ron's UK investment vehicle, acquired the 12 per cent holding of Allied Partnership, the building services and plant hire group, a 5.8 per cent stake from Mr Colin Giltrap, a New Zealand car distributor and the remaining 6.8 per cent through the market.

The two parcels changed hands at 600p per share compared with the market price of 585p prevailing at the time of the transactions on Wednesday. The shares yesterday rose a further 42p to 600p following confirmation of the transaction.

Caffyns' property holdings in the south east of England are believed to form the basis of a net asset backing of between 800p and £10.

Noble and Lund to sell its founding Gateshead company

By Nick Garnett

NOBLE AND LUND, the engineering and furniture group assembled since 1935 by a Eurobond dealer, the shares of which have been suspended since March, is selling the machine tool business which gave the group its name.

The Noble and Lund business, which makes specialist heavy machines, in Gateshead is being sold to FMT, the Brighton-based manufacturer of machining centres and customised manufacturing cells.

No price has been announced. FMT said the deal was part of a £10.5m investment programme which included the purchase of four acres of land next to its Brighton plant.

FMT was formed last year as a management buy-out of the former KTM machine tool company from Vickers. The machine tool industry expects FMT to seek a stock exchange listing within three to four years.

Noble employs 80 on a 15-acre site in Gateshead and had sales in the twelve months to December of £7.5m. Mr Mike Bright, chairman of FMT said it was intended to keep the site and increase employment. Some of FMT's technology would be transferred to the site which would also begin making some FMT machines designed for the aerospace industry.

Noble and Lund has been a quoted company since 1947. In 1985 it was bought by Mr Terry Galley, a Eurobond dealer, who has since returned to the City. Earlier this year, Mr Ross Martin, a New Zealand investor and Mr Peter Williams announced they were planning to reverse another company, Thecus Investments into Noble and Lund. In March, however, the plan was shelved when accounting errors were found in a Noble subsidiary and the shares were suspended.

Acquisitive Waverley Cameron advances 25.7% to £2.71m

By John Riddling

WAVERLEY CAMERON, the stationary office furniture and marketing services group, yesterday announced pre-tax profits of £2.71m for the year to March 31, a rise of 25.7 per cent.

The results are merger accounted to reflect the string of acquisitions since Mr James Gulliver took control of the group in February 1988. On a non-merger accounted basis, the figures show a marked recovery from losses of £176,000 for the 15 months to March 1988.

Turnover of the new group increased from £34.66m to £45.36m and fully diluted earnings per share rose by 11.5 per cent to 3p. The slower rate of increase reflects the issue of shares in February 1988 as part of a capital injection by Mr Gulliver's Sands Investments.

There is a final dividend of



James Gulliver: a year of considerable progress

0.7p which gives a total for the year of 1p (0.26p).

Mr Gulliver, chairman, said that the company had "enjoyed a year of considerable progress. Three significant acquisitions were made... which form the core of our development in line with our stated strategy."

The group now comprises three divisions - distribution, retailing and marketing services. Distribution, by far the largest, accounted for almost 78 per cent of profits. The two smaller divisions both increased their operating profits by over 50 per cent. Because of the larger share of these businesses, gross operating margins slipped from 31.1 per cent to 29.1 per cent.

Mr Gulliver said that all companies were reporting a higher level of activity than last year and that the prospects for growth were encouraging.

Hepworth sells offshoot for £7m

By Clare Pearson

HEPWORTH, the building, home and industrial products group, has raised £7m through the sale of the electronic security division of Henderson Group, the doors and ladders company it bought in May 1988.

The division contributed just £400,000 to Hepworth's pre-tax profits of £26.31m in 1988. Its Swiss, US and UK operations are being sold separately with Securitas Technology, part of Group 4, the big European security company, taking control in the UK.

Hepworth, which defeated a rival bid for Newman Tonks, the door controls and building

supplies group, to buy Henderson for £8m, said the security division had not fitted in with the rest of its operations.

It also announced the appointment of Mr Brian Powell, divisional director with responsibility for home products, to the main board. Mr Powell joined Hepworth 14 months ago from GEC.

At Hepworth's annual meeting in May, Mr Sinclair Thomson, chief executive, said high interest rates were hitting its house building products side more seriously than expected. But other operations such as the industrial doors division were above budget.

Controls breakdown puts Harmony Leisure in red

By Clare Pearson

HARMONY LEISURE Group, USM-noted pub and restaurant operator, blamed a breakdown of financial controls, related to the loss of key personnel, for a pre-tax loss of £127,000 in the year to end-March.

In the second half the company sustained the departure of the finance and operations directors, Mr Bob Balsey and Mr Geoffrey Runt. In addition a £740,000 refurbishment programme at five of the proper-

ties caused disruption.

However, Harmony is proposing a dividend of 0.168p (0.14p) for the year. It said the three pubs most affected by the second half disruption were now trading in line with budget and group turnover for the first three months was showing a 2.7 per cent increase.

Turnover during the year was £817m (65.19m). After a tax charge of £70,000 (£30,000 credit) the loss per share came out at 0.22p (earnings 1.52p).

United Inds springs up to £2.96m

By Edward Sussman

UNITED INDUSTRIES, the West Midlands-based spring maker, steel stockholder and processor, recorded pre-tax profits of £2.96m on turnover of £40.4m in the year ended April 1.

Last year the company, which was created in December 1987 from the merger of Hatchell Industries and United Spring & Steel, changed its year end from September 30 to March 31, making year-on-year comparisons difficult. But using the 12 months ended

April 2 1988 as a base, pre-tax profits rose 77 per cent from £1.67m on turnover of £35.98m.

Mr John Cowen, chairman, said all three of United Springs' divisions which had been recording losses were now profitable. Turbine Tools, Brierley, Collier & Hartley and British Springs swung to a profit of £522,000, against a loss of £207,000 in six months to April 2 1988.

In the cutting tools division, sales to the government slipped as road repair pro-

grammes waned, the company said, but orders were up in the general engineering, aerospace and defence industries. The division saw pre-tax profits of £559,000 on turnover of £5.5m.

Earnings per share reached 5.22p (5.72p), and a final dividend of 1.8p makes a total of 3p.

TGI to raise £5.2m via share issue

By Edward Sussman

TGI, the audio and consumer electronics company, is to issue 3.27m ordinary shares to raise £5.2m towards reducing its borrowing.

The group, which raised about £8.5m when it came to the main market in January 1988, said its debt stood at some £4.8m. Earlier this year,

to shareholders on a basis of 18 shares for every 100 held, at a price of 165p.

TGI directors, the SUMIT group, the curtain styling and home improvement products group, is set to change hands. The stake currently belongs to 3i, the investment institution, which indicated that it has found a buyer for the 2.68m shares at 110p each.

Mr Thomas French said that his family was considering whether to take the holding but in the meantime refused to disclose the identity of the buyer lined up by 3i.

He said he was not unduly worried by the identity of the buyer.

Sir Ron Brierley: acquired 14.7% of voting rights

Under Caffyns' two-tier share structure, the 23.6 per cent stake gives Sir Ron voting rights over 14.7 per cent of the capital.

In addition to the 3.3m ordinary shares, Caffyns has 2m second preference shares. Each of the two categories of shares has an equal voting weight.

Caffyns is firmly in the control of the Caffyn family which owns all of the preference capital and 26 per cent of the ordinary shares, accounting for a 54 per cent voting block.

IEP's rapid move to take such a large slice of the capital inspired speculation that it might be a prelude to a bid for the company which operates in the same business as Toser Kemsley & Millbourne, the Brierley group's most successful UK investment.

Mr Alan Caffyn, chief executive, said he was "not really very worried" by the appearance of Sir Ron on the register.

He believed the family holding would be a major obstacle to a takeover. He added that Austin Rover, which accounts for about 60 per cent of Caffyns' sales, might object to Toser Kemsley & Millbourne acquiring further outlets through the takeover of the company.

Caffyns returned weak results for the year to March 31, with pre-tax profits up 6.5 per cent to £2.06m. Mr Caffyn said that he expected a softening of motor vehicle markets during the current six months as increased interest rates slow demand.

Cable and Wireless Jamaican deal

Cable and Wireless, the international telephone operating group, is paying £27m for a further 20 per cent stake in Telecommunications of Jamaica.

The deal with the Jamaican Government, which controls 80 per cent of TOJ, gives Cable a total holding of 98 per cent. Cable said that it expected to see rapid growth in the Jamaican telephone infrastructure over the next five years, with the installation of an advanced digital system.

Matthey chief emoluments

Mr Eugene Anderson, chief executive of Johnnie Matthey, saw his total emoluments rise from £213,843 to £268,537 in the year to end-March 1989, according to the company's annual

report. However, within this figure recurring emolument increased only marginally from £213,843 to £226,263. The balance was made up by a non-recurring figure of £54,674.

30 June 1989

CFX

Credit for Exports PLC
(Incorporated in England with limited liability)

US \$155,000,000

Unsecured Floating Rate Notes due 1985 to 1992

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the period from 3 July 1989 to 2 January 1990 has been established at 9%, per cent, per annum.

The interest payment date will be 2 January 1990. Payment, which will amount to US\$ 473.39 per Note, will be made against the relative coupon.

Agent Bank
Morgan Grenfell & Co. Limited

COMPANY NOTICES

LLOYDS EUROFINANCE NV

Pursuant to the listing on The Stock Exchange of loan capital of Lloyds Eurofinance NV, copies of that Company's audited accounts for the year ended 31st December 1988, are available from:-

THE SECRETARY, LLOYDS BANK PLC,
71 LOMBARD STREET, LONDON EC3P 3BS

NOTICE OF FINAL REDEMPTION

Blair Athol Finance Limited
(Incorporated under the laws of the State of Victoria)

US \$141,000,000

Guaranteed Floating Rate Notes due 1994 of which US \$110,000,000 has been issued as an initial tranche (The "Notes")

NOTICE IS HEREBY GIVEN that in accordance with the terms and conditions of the Notes the Company has elected to redeem all the remaining outstanding Notes at their principal amount on the next interest payment date being 7th August, 1989 (the "Redemption Date") when interest on the outstanding Notes will cease to accrue. Upon the Redemption Date of the Notes, unsecured Coupons relating to such Notes shall become void and no payment shall be made in respect thereof. The Notes and the Coupons will become void unless presented for payment within periods of ten years and five years, respectively, from the relevant date (as defined under condition 9 of the Notes) thereof.

Repayment of the principal will be made upon presentation of the Notes with all unsecured coupons attached, at the offices of any of the Paying Agents mentioned therein.

Accrued interest due on 7th August, 1989 will be paid against presentation of Coupon No. 4 on or after 7th August, 1989.

All drawn Notes by the February, 1989 partial redemption have been presented for payment.

BANK OF MONTREAL, LONDON

PRINCIPAL PAYING AGENT

30th June, 1989

Jas Crosby profits leap to £4m

THE buoyancy of the housing market in the north west of England was illustrated yesterday by James Crosby Group, the Cheshire-based housebuilding and property development company.

In the year to end-March, pre-tax profits leapt to £4.12m (£1.74m) on turnover ahead 89 per cent to £15.59m. However, Mr Michael Burgess, chairman, warned that the next 12 months would be more difficult.

Earnings per 10p share were 24.27p (14.3p), and the proposed final dividend of 2.5p makes 3.5p (2p) for the year.

Intec losses near £3m mark

Intec Group, the USM quoted concern that manufactures and markets micrographic equipment, suffered losses of £2.85m pre-tax for the six months ended December 31 1988. This

is compared with £1.64m for the whole of the previous 12 months.

The directors, however, stated that the group had been restructured into three profit centres, had rationalised its development, production and accounting activities and for the four months to April was showing a modest surplus.

Turnover for the first half amounted to £4.97m (£11.12m for the 12 months - group changed the year end from June to December) and there was a gross profit of £238,000, against £2.15m.

There is no dividend - the last payment was in 1985.

Speakman expands 15%

Sutcliffe Speakman, the Lancashire-based activated carbon solvent recovery and chemical group, lifted taxable profits 15 per cent to £2.85m in the year to March 31.

Directors said that the benefits of the substantial investment programme at its carbon plant at Leigh should be seen in the second half of the current year.

Turnover expanded 55 per

Tokyo Pacific Holdings N.V.
Tokyo Pacific Holdings (Seaboard) N.V.

The Quarterly Report as of 31st March 1989 has been published and may be obtained from:

Fieroon, Helderling & Fieroon N.V.
Herengracht 214, 1016 BS Amsterdam

National Westminster Bank PLC
Stock Office Services,
3rd Floor
20 Old Broad Street
London EC2N 1EJ

N.M. Rothschild & Sons Limited
New Court, St. Swithin's Lane,
London EC4P 4DU

Européenne de Banque
21 Rue Laffitte, Paris 9

Trinkaus & Burkhards
Königsallee 21-23
D 4000, Düsseldorf 1

Sal. Oppenheim Jr. & Cie.
Unter Sachsenhausen 4, D 5000, Köln 1

Banque Paribas Belge S.A.
Boulevard de la Woluwe 62,
B-1200, Brussels

Banque Paribas
3 Rue d'Artois, Paris 2

Banque Paribas (Luxembourg) S.A.
11a Boulevard Royal, Luxembourg

Merrill Lynch International & Co.
all European Offices

Rothschild Australia Limited
Royal Exchange Building
56 Pin Street, Sydney N.S.W. 2000

NZI CAPITAL CORPORATION

YEN 10,000,000,000

Guaranteed Floating Rate Notes due 1992

In accordance with the description of the Notes, notice is hereby given that for the interest period June 29, 1989 to December 29, 1989, the Notes will carry an interest rate at 5.1% p.a.

The interest payable on December 29, 1989 against coupon n° 5 will be YEN 255,699 per Note of YEN 10,000,000.

The Agent Bank
THE TAIYO KOBE BANK LIMITED

London Securities rises 48% and calls for £23m

By Gary Evans

LONDON SECURITIES, property and investment management concern, yesterday reported a 48 per cent jump in 1988-89 profits along with plans to raise £23.5m, net of expenses, via a rights issue of convertible preference shares.

The company also announced that, conditional upon the rights issue proceeding, it will pay £2.8m in cash to acquire a 29 per cent stake in Clarke Nickolls and Coombs, the listed property company, from Tiphook Associated Finance. In addition, a further £75,000 is payable in respect of interest forgone for the period from exchange of contracts to completion.

Explaining the reasons for the rights, Mr David Pearl, the chairman, said the board considered that the capital base of the company should be strengthened. The proceeds would be used to finance the acquisition, reduce borrowings and increase working capital thus facilitating a continuation of the group's expansion.

The issue is of 24.28m cumulative redeemable convertible

preference shares of 25p each, with shareholders invited to subscribe for two convertible preference shares for every five ordinary shares, at a price of £1 per share.

The convertible preference shares will pay a dividend of 3.25p net per share, representing a gross yield of 11 per cent on the issue price of £1. The issue has been underwritten by Rothchilds.

Group pre-tax profits advanced from £4.21m to a record £6.23m in the year ended March 31. Earnings per 15p share were 7.1p (7.6p) based on the historical tax charge of 6.2p (6.9p) on a full charge. Tax took £1.93m (£177,000).

Mr Pearl said that with carried forward tax losses exhausted, earnings per share did not fully reflect the growth in profitability. The dividend however, is being doubled to 1p. Net tangible assets per share grew from 40.6p to 44.4p in the year.

The chairman predicted that next year would be another one of aggressive expansion.

Dogbolter beer about to spread to rest of UK

By Graham Deller

"WE ARE going to firm up the UK." So said Mr Ian Rock, a director of Midsummer Leisure, the public house and snooker club group which took over the Bruce's Brewery chain in March 1988.

Bruce's, famed for a selection of traditional pubs in London all bearing the "Firkir" banner, and its heady Dogbolter beer, was founded by Mr David Bruce in 1979.

Speaking at the Goose & Firkin in Southwark, London, the original Bruce's outlet which is set to celebrate its 10th anniversary on July 18, Mr Rock

said that following the success of the Flamingo & Firkin in Derby, and the opening of two more pubs in London next month, the group was planning to expand nationwide.

To the accompaniment of Frankie Flame on the piano and David Bruce cawing in red lights and a fluffy goose outfit, Mr Rock said that Midsummer was effectively re-launching the Bruce's concept with a £100,000 promotional campaign.

And the goose? "They just wheel me out on occasions like this," he harked.

Redemption Notice



European Investment Bank 13% Bonds Due 1996

NOTICE IS HEREBY GIVEN, pursuant to the Fiscal Agency Agreement dated as of August 31, 1984 under which the above described Bonds were issued, that European Investment Bank has called for redemption on August 31, 1989 \$25,000,000 principal amount of said Bonds at the redemption price of 100% of the principal amount thereof, together with accrued interest to August 31, 1989. The serial numbers of the Bonds selected for redemption are as follows:

COUPON BONDS

(All in \$1,000 denomination)

Table listing serial numbers of bonds selected for redemption, organized in columns. The table contains thousands of entries, each representing a bond's serial number.

(Continued on next page)

64730	66231	67838	68567	71121	72817	74011	74493	76177	77818	79458	80996	82714	84590	86111	87786	88440	89118	92700	94440	96289	97991	99654	11110	102748	104185	106641	107250	109030	110853	112417	114007	115796	117526	119241	121066	122781	124417	126028	127794	129528	131241	132941	134641	136341	138041	139741	141441	143141	144841	146541	148241	149941	151641	153341	155041	156741	158441	160141	161841	163541	165241	166941	168641	170341	172041	173741	175441	177141	178841	180541	182241	183941	185641	187341	189041	190741	192441	194141	195841	197541	199241	200941	202641	204341	206041	207741	209441	211141	212841	214541	216241	217941	219641	221341	223041	224741	226441	228141	229841	231541	233241	234941	236641	238341	240041	241741	243441	245141	246841	248541	250241	251941	253641	255341	257041	258741	260441	262141	263841	265541	267241	268941	270641	272341	274041	275741	277441	279141	280841	282541	284241	285941	287641	289341	291041	292741	294441	296141	297841	299541	301241	302941	304641	306341	308041	309741	311441	313141	314841	316541	318241	319941	321641	323341	325041	326741	328441	330141	331841	333541	335241	336941	338641	340341	342041	343741	345441	347141	348841	350541	352241	353941	355641	357341	359041	360741	362441	364141	365841	367541	369241	370941	372641	374341	376041	377741	379441	381141	382841	384541	386241	387941	389641	391341	393041	394741	396441	398141	399841	401541	403241	404941	406641	408341	410041	411741	413441	415141	416841	418541	420241	421941	423641	425341	427041	428741	430441	432141	433841	435541	437241	438941	440641	442341	444041	445741	447441	449141	450841	452541	454241	455941	457641	459341	461041	462741	464441	466141	467841	469541	471241	472941	474641	476341	478041	479741	481441	483141	484841	486541	488241	489941	491641	493341	495041	496741	498441	500141	501841	503541	505241	506941	508641	510341	512041	513741	515441	517141	518841	520541	522241	523941	525641	527341	529041	530741	532441	534141	535841	537541	539241	540941	542641	544341	546041	547741	549441	551141	552841	554541	556241	557941	559641	561341	563041	564741	566441	568141	569841	571541	573241	574941	576641	578341	580041	581741	583441	585141	586841	588541	590241	591941	593641	595341	597041	598741	600441	602141	603841	605541	607241	608941	610641	612341	614041	615741	617441	619141	620841	622541	624241	625941	627641	629341	631041	632741	634441	636141	637841	639541	641241	642941	644641	646341	648041	649741	651441	653141	654841	656541	658241	659941	661641	663341	665041	666741	668441	670141	671841	673541	675241	676941	678641	680341	682041	683741	685441	687141	688841	690541	692241	693941	695641	697341	699041	700741	702441	704141	705841	707541	709241	710941	712641	714341	716041	717741	719441	721141	722841	724541	726241	727941	729641	731341	733041	734741	736441	738141	739841	741541	743241	744941	746641	748341	750041	751741	753441	755141	756841	758541	760241	761941	763641	765341	767041	768741	770441	772141	773841	775541	777241	778941	780641	782341	784041	785741	787441	789141	790841	792541	794241	795941	797641	799341	801041	802741	804441	806141	807841	809541	811241	812941	814641	816341	818041	819741	821441	823141	824841	826541	828241	829941	831641	833341	835041	836741	838441	840141	841841	843541	845241	846941	848641	850341	852041	853741	855441	857141	858841	860541	862241	863941	865641	867341	869041	870741	872441	874141	875841	877541	879241	880941	882641	884341	886041	887741	889441	891141	892841	894541	896241	897941	899641	901341	903041	904741	906441	908141	909841	911541	913241	914941	916641	918341	920041	921741	923441	925141	926841	928541	930241	931941	933641	935341	937041	938741	940441	942141	943841	945541	947241	948941	950641	952341	954041	955741	957441	959141	960841	962541	964241	965941	967641	969341	971041	972741	974441	976141	977841	979541	981241	982941	984641	986341	988041	989741	991441	993141	994841	996541	998241	1000000
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THE PROPERTY MARKET

Paul Cheeseright considers the prospects for investment after 1992

Building up to the single market

Don't leave your common sense behind at Heathrow Airport, admonished Mr d'Arcy-Irvine as he considered the prospects for property investment in the European Community.

On the face of it, there will be glittering opportunities, always assuming that by 1992 there will be an open market stimulated by the free movement of goods, services and capital. The vision is one of increased trade and economic growth bringing in its train a new demand for property.

Mr d'Arcy-Irvine, who has been active on the continental Europe market for 20 years and is chairman of Shaftesbury Investments, says the British developer has advantages in this market. He outlined them, with his customary note, this week at an ICC conference: Europe 1992 - the property investment market.

They included the fact that English is a common language. He noted there have been five fat years in the main investment markets and this has affected judgment. He suggested that UK developers had been working in a technically more advanced market and had staff trained to a higher level than their continental counterparts. He observed that developers

would have access to larger, less regulated capital markets. But, leaving aside any discussion of whether the EC will meet its 1992 target, there is a host of pitfalls, as Mr d'Arcy-Irvine acknowledged, for any investor. These pitfalls are the same as they have been for decades and they have not been addressed in the programme for 1992.

"Not many politicians bother about bricks and mortar," Paul van Romunde, director of Rodamco, the open-ended investment fund based in the Netherlands, told the conference. "They are there. They don't move. There is not much political interest in it."

The result has been that, except indirectly, there is no push for changes which would create an EC property market. Mr van Romunde noted that there are divergences of practice even in the relatively simple matter of deciding at what time a property agreement becomes binding.

In the UK, contracts have to be signed and exchanged by those involved in a deal. In the Netherlands, an oral agreement is binding. In France, Germany and Spain, contracts have to be exchanged in front of a notary public, presumably because it is thought necessary that a third party decides

whether a deal is valid or not. There is a plethora of tax regulations. The disparities in the national VAT rates is a matter of political contention, but in property the problems also include the different levels of stamp duty or transfer tax.

Feed in legal differences, language differences, currency fluctuations and interest rate disparities, a mixture of local planning practices and technical building codes, and the gross imperfections of the market become clear. Sorting out a unified approach to property transactions is, in Mr van Romunde's view, a matter for 2002 rather than 1992.

Nevertheless, the propaganda for 1992 has heightened interest in investment across European borders and, on the British side and among developers and surveyors in particular, a desire to extend the years of plenty has lifted eyes to narrowing yields and rental growth across the water.

The attraction now is the same as it always has been - the desire for diversification. Given that property returns tend to move in cycles and the cycles move at different paces in different countries, diversified investment can spread risk and even out rewards.

But the search for diversification abroad has produced its

own horror stories and, among institutions, it is approached with the utmost caution. Property investment abroad is generally a high priority for fund managers.

Sun Alliance Group Properties have had investments abroad for 200 years. Michael Dew, managing director of its £2.2bn portfolio spread over 24 countries, urged the ICC conference delegates to stick to the markets they know best. Certainly a knowledge of rents and vacancy rates is just not enough to understand what drives a particular market.

Short of building up expertise in local markets, whether individually or in joint ventures with foreign partners, the easiest way into the wider European market is probably through specialist funds. This sector shows every sign of growing.

According to Michael Bamber, chief executive officer for the mainland Europe operations of Richard Ellis, chartered surveyors, Wereldhave and Rodamco property funds have been the leaders but other groups, notably the Spanish, French and Belgians, have become increasingly interested in developing similar funds throughout the Community. How these funds are established depends on local

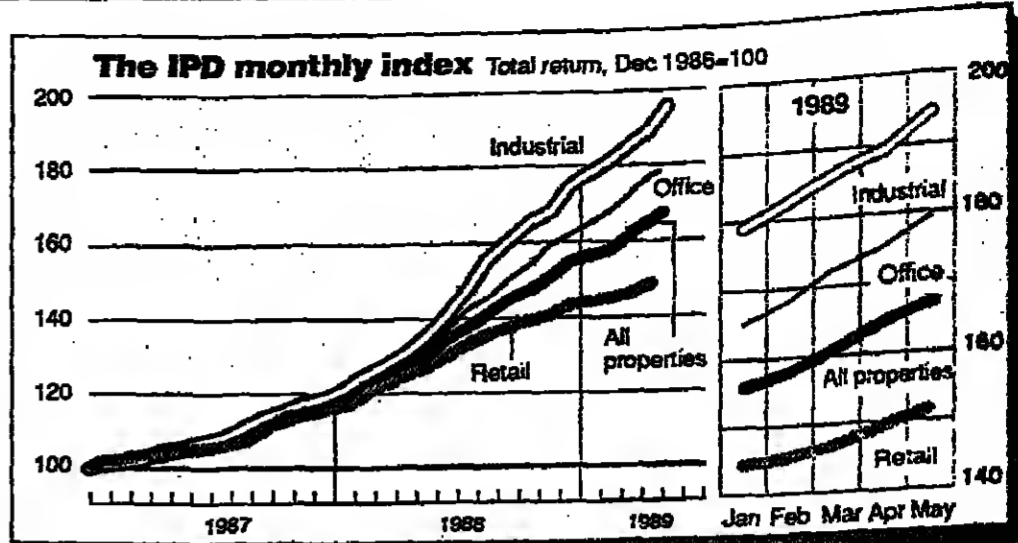
tax implications.

For developers, there is, of course, no question of acting by proxy. Even if they come to terms with the vagaries of the local markets, they will still be thrust back on the problems of location and the timing of their projects. But Mr d'Arcy-Irvine believes there are sectors of opportunity.

Offices in central locations using the latest technical devices for cabling and so on - not yet widespread - are one area. Economic growth should expand the need for distribution centres. Retail property development has not been as extensive in continental Europe as in the UK. And, noted Mr d'Arcy-Irvine, there is scope for new products like business parks.

The opportunities for developers may change but, as Mr Dew observed, there is nothing new in the situation for long-established investors. The conditions influencing cross-border property investment are unaffected by the hopes and fears of other sectors for 1992.

Correction: The lines on the chart headed "City of London offices" in last week's Property column were mislabelled. The rising line should have been marked "Newly available" and the falling line "Take up."



Still showing strength

TOTAL RETURNS on the property market for the year to May were 28.3 per cent, according to the latest monthly index of the Property Investment Databank.

Although this suggests that the market has been slowing down since last January, the rate of growth over the last 12 months is still higher than the year to May 1988. Clearly there is strength still in the market.

Significantly, in the light of the Government's attempts to curb consumer spending, confidence appears to be reviving in the retail sector, where the

IPD has tracked over the quarter to May an increase in capital value growth and a slight firming of yields. The total return in May was 1.3 per cent and for the year to May it was 18.5 per cent.

But the strongest growth has been in the industrial sector, where the rate of rental growth appears to be accelerating outside London, although yields have been falling slightly faster in the south east.

Total returns for industrial property were 44.3 per cent in the year to last May, 8.8 per cent in the quarter to May and

2.6 per cent in May alone. But on a yearly basis the rate of growth for industrial has slackened slightly just as it is continuing to do in retail and office property.

For offices, according to IPD, the current net yield has been at its lowest level for 16 months.

The total return from offices in the year to May was 35.7 per cent and for the month of May 2.3 per cent, which takes it back to the level of last March.

On a running quarterly basis, office returns have started to move up again.

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COMMODITIES AND AGRICULTURE

Search continues for coffee pact consensus

By David Blackwell THE INTERNATIONAL Coffee Organisation's executive board will today continue to look for a consensus on extension of the coffee agreement. The board met yesterday in advance of the full council meeting on Monday, when producer and consumer delegates will vote on two proposals to prolong the pact beyond the end of September. But delegates are so fundamentally divided that there is little hope that either proposal will attract sufficient votes for acceptance. The board is working on a compromise proposal to enable the pact to survive. Yesterday the price of coffee on the London Futures and Options Exchange (Fox) fell sharply on reports that the board was considering an early suspension of export quotas if Monday's vote ended in a draw. The September robusta contract touched \$964 before recovering to close just \$1 down on the day at \$1010 a tonne. Traders have been keenly watching for any developments at the ICO. Any sign of optimism now appears to have evaporated - but traders are still hesitant given the ICO's track record of last minute solutions to its problems. The board yesterday agreed

LME silver 'dies of natural causes'

By Kenneth Gooding, Mining Correspondent THE LONDON Metal Exchange stopped trading silver yesterday and there will be few regrets. "The silver contract died of natural causes and there will be no requiem mass," commented Mr Michael Brown, the LME's chief executive. This was his way of indicating that the LME's silver contract has been little used since early 1980 when an unsuccessful attempt was made to corner world silver supplies. LME traders suffered big losses at that time. Silver was the only precious metal traded on the LME, a reflection of its wide industrial use. In recent years changes have been made to the contract's size and there was a switch from sterling to dollars in the currency denomination. But interest remained minimal in the face of competition from the London Bullion Market. At the end of last week the LME still had nearly six million ounces of silver left in its stocks, worth about \$42m at current prices. Mr Brown said the silver which is suitable will be transferred to the London Bullion Market's stocks and other metal will "rapidly be consumed."

Potato researchers go back to the roots

Veronica Baruffati reports on work being done by international scientists in Peru

A RESEARCH centre in Peru is working to make the common spud even more common. Solanum tuberosum, as botanists know it, has brought together scientists from 22 countries in the International Potato Centre (CIP) in Lima's sunny suburb of La Molina. CIP was founded in 1971 by Dr Richard Sawyer, a former professor at New York State's Cornell University, who considers the CIP very much his baby and is now its director general. He says the moving force behind the centre's creation was the need for greatly improved nutrition in areas of the developing world. "We had to help places where large social crises were unanswered," Dr Sawyer puts it. The CIP logo is a fourth century Nazca potato bearer who holds a diseased plant in his left hand and a healthy one in his right.



The Huanayo centre is now managed entirely by Peruvians trained by CIP scientists

The centre was first funded in 1972 when the Consultative Group for International Agricultural Research made financing available to selected research centres. Within the group's system, the CIP's mandate was "to develop, adapt and expand research necessary for the technology to solve priority problems that limit potato production in developing countries." Today, with over 40 donors, the centre has an international staff of 100, and 600 supporting personnel in La Molina who carry out research in collaboration with over 80 national agricultural research programmes throughout the world. The potato, whose ancestral home is in the Andes, is one of mankind's most valuable foods. It produces more energy and protein per cultivated acre per unit of time than most other major crops. Not only is it suitable for cultivation in temperate climates, but it also has enormous potential for adaptation to the diverse growing conditions of the tropics where the majority of develop-

ing countries are found. Nearly 3.5m people (three quarters of the world's population) inhabit the 95 potato producing countries of the world. The centre has devoted much research to the development of a warm climate potato adapted to the specific needs of the tropical environment of many developing nations. This research is carried out in conjunction with local programmes. One example of the centre's collaboration with other countries is its development of a warm climate Russet Burbank potato, used in North America for preparing frozen chips. The demand for fast foods in Asia is enormous and the CIP has helped to develop a warm climate Russet Burbank for these countries so that they need not have to import from North America. In this way franchised restaurants can use local produce without expending a drop in standards. Over the years, the centre has built up a bank of gene-

There are several advantages to planting with seed. A handful of seed replaces 2 tonnes of bulky, difficult-to-transport tubers; the cost is lower; seed is available year round, freeing the tubers normally saved for planting for consumption; and few diseases are known to be transmitted by seed. Demand for true seed technology is rapidly increasing and research is being carried out in 40 developing countries, some of which are already using seed commercially. Since 1985 the centre has diversified into research on the sweet potato (Ipomoea batatas), and it is expected that within the next couple of years 40 per cent of CIP research will be carried out on the sweet potato which grows widely in the tropics. Mr Peter Gregory, head of research at the CIP, said that "looking ahead, it would not be unlikely that we diversify our research even further into other root and tuber crops." A team of social scientists at

the centre explores the complex system within which tuber and root crops are produced and utilised, placing special emphasis on cultural aspects, such as the role of women in agriculture. The CIP has three other experimental stations in Peru: one in the cool Andean highlands of Huanayo (3,360 metres above sea level), and two warm and humid jungle sites, in San Ramon (590 metres above sea level) and Yurimaguas (180 metres above sea level). The situation of violence and terror in Peru has also left its mark on the centre. Last year it had to pull out all of its international staff from their Huanayo base after Sendero Luminoso guerrillas had ambushed a CIP bus there, killing the head of security. The Huanayo centre is now managed entirely by Peruvians aged between 20 and 30. Given Peru's volatile situation, Dr Sawyer said that his two main concerns are to protect the lives of those working at CIP, to guarantee security of the world collection of germplasm and to guard the CIP's physical facilities. Dr Sawyer said that conversations are under way with the Peruvian Government to obtain permission to move the centres Huanayo high altitude research to Santa Catalina just outside Quito. He also added that he had just signed a large security contract for the protection of the San Ramon field station where international staff are still based despite surrounding Sendero Luminoso activities. The presence of foreigners, however, is minimised. "Bricks and mortar can be moved. If we have to, we will. We are already highly diversified throughout the world," said Dr Sawyer. "However, we will stay in Peru as long as we can. Our wealth of 600 trained Peruvians, all professionals in their own right, would take years to replace. And after all, Peru is the home of the potato."

US wheat shows signs of stress

By Nancy Dunne in Washington

DESPITE HEAVY spring rains in many of the crop growing areas in the US, signs of stress have begun to emerge in the wheat-growing area of the Great Plains. The Agriculture Research Service is urging farmers in the area - which includes the Montana Plains, large parts of North and South Dakota, Northeastern Wyoming and the Northern tier of Nebraska - to change their crop rotation methods to boost both income and soil conservation. Farmers in the Plains states have traditionally tilled their fields every other year to allow extra time for the soil to soak up moisture. However, after a six-year study, the ARS has concluded that the fallow-crop sequence is no longer necessary if farmers use other conservation practices to trap snow and reduce evaporation. Mr Aase said farmers could earn up to \$3.00 more per acre at today's prices by growing crops annually. The most profitable crop sequence, according to the study, would be first wheat, then safflower (an oilseed) and finally barley, planted over three years. Alternatively, but less profitably, farmers could plant winter wheat one year, spring wheat the next and leave the land fallow the third year, he said. The ARS is urging farmers to remain flexible in their planting decisions. If there has been a dry winter and spring, farmers would do best following wheat, using conservation tillage practices that protect soil from erosion, and saving the costs of putting in a crop. It is difficult to know though, Mr Aase said. This spring he would have recommended planting. Now he is worrying.

Bullion market to launch Gold Libor

By David Blackwell

THE LONDON Bullion Market Association is to publish from July 10 a London Interbank Offered Rate for gold, to be known as Gold Libor. The new figure will be calculated on similar lines to the London Interbank Offered Rate, which represents the rate at which banks lend funds to each other in the London money markets. "This is vitally important for the industry," said Mr Peter Hambro, chairman of the LBMA public affairs committee, yesterday. "It at last gives us a workable benchmark." Many market users, particularly those with mining customers who use gold loans to finance development and capital projects, need long-term availability of gold. Although London's gold market has to date provided much of this funding it has until now been unwilling to offer fixed rates for the long periods involved. The LBMA says the establishment of the Libor shows how London can quickly respond to its customers needs.

Brazil suspends 'irregular' sugar deals

By John Barham in Sao Paulo

BRAZIL IS to suspend all sugar export contracts signed in the period 1983 to 1985, because it considers the sales to be highly damaging to the national interest. Announcing the move yesterday, Mr Roberto Cardoso Alves, the Industrial Development and Trade Minister, who is responsible for the sugar sector, said: "These contracts were irregular. I have determined that the president of the Sugar and Alcohol Institute instruct buyers that they may appeal to an international tribunal." He added that "past presidents of the institute exceeded their responsibilities."

The ministry said 14 export contracts covering the sale of 1.8m tonnes, with delivery due through to 1993, were to be suspended. It added that the contracts specified sale prices of \$80 a tonne, about one-quarter of the present market price. During the period in question the London daily raw sugar price ranged between \$79 and \$193.50 a tonne. A ministry official was unable to say which adjustment clauses had been written into the sales. She said "it is clear that these contracts represent a heavy loss for Brazil."

The ministry has not said which countries or buyers will be affected by the ban. Mr Cardoso Alves has written to President Jose Sarney for his final approval of the suspension. In January, Mr Cardoso Alves ordered suspension of three 400,000 tonne export contracts and announced the suspension of the sugar and alcohol industry. The president of the Sugar and Alcohol Institute after reports of corruption in closing the contracts. The buyers, Portugal, Bulgaria and Czechoslovakia, are expected to contest his decision in an international court.

Soya protest to continue

By John Barham

BRAZILIAN soyabean producers say they would continue their month-old protest against government farm policy after a demonstration in the capital, Brasilia, on Wednesday failed to soften the Finance Minister's heart. Between 8,000 and 10,000 farmers gathered in front of Congress to demand more government credit, higher prices and, above all, an immediate devaluation of the Brazilian cruzeiro. They said the overvalued currency had made exports unprofitable. Mr Malison da Nobrega said he would resign rather than

devalue the currency. Exporters say the cruzeiro is 25 to 30 per cent overvalued. Farmers have suspended sales, blocked highways and stopped paying their bank debts in support of their demands. Mr Irls Resende, the Agriculture Minister, promised to put together a compromise package to enable a resumption of sales. But protesters rejected his proposal for a ten-day "truce" during the talks. However, reports from Brasilia suggest that soya farmers in southern Brazil have grown less militant following a slight rise in prices.

WORLD COMMODITIES PRICES

LONDON MARKETS

Table of London market prices for various commodities including copper, tin, lead, zinc, and oil. Columns include commodity name, unit, and price.

COGDA D/tonne

Table of COGDA D/tonne prices for various grades of tin, lead, and zinc.

LONDON METAL EXCHANGE

Table of London Metal Exchange prices for various metals including aluminium, copper, and tin.

POTATOES D/tonne

Table of potato prices for various grades and origins.

SOYABEAN MEAL D/tonne

Table of soyabean meal prices for various grades.

FRUGHT AND VEGETABLES

Table of fruit and vegetable prices for various items like apples, oranges, and bananas.

FRUIT AND VEGETABLES

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US MARKETS

Table of US market prices for various commodities including gold, silver, and oil.

NEW YORK

Table of New York market prices for various commodities including gold, silver, and oil.

CHICAGO

Table of Chicago market prices for various commodities including soybeans, corn, and wheat.

LONDON STOCK EXCHANGE

German rates move hurts equities

THE BUNDESBANK'S decision to lift interest rates jolted confidence in the London stock market yesterday, bringing a sharp setback in an equity sector already unsettled by signs of an increasing slowdown in the US economy.

Account Opening Dates table with columns for Account Type, Opening Date, and Closing Date.

losses following the announcement from the Bundesbank. By early afternoon, the FT-SE index was nearly thirty points off its start.

institutions. However, with Wall Street duly fulfilling expectations by opening with a further setback, there was little recovery in London.

At the close, the FT-SE index showed a fall of 27.4 points to 2,182.2. Seag volume of 385.8m shares compared with 446.2m in Wednesday's curtailed trading session.

sure by weakness in a handful of leading blue chips. As applications for the Abbey National issue reached the deadline, TSB disappointed the financial sector with a hefty fall in interim profits.

Changes of stance on ICI

The rush to mark down prices hit ICI more than most. As well as the general market mood, the stock was undermined by persistent stories of imminent research comments from analysts.

One top breaking house agreed that it had decided that the company's second quarter would not show its usual seasonal bounce.

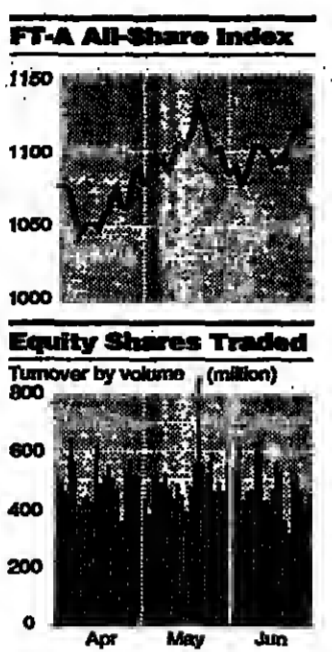
TSB dismay Although the market was buoyant last year, a year of half-price figures from TSB, the 25 per cent decline to £164.5m left dealers reeling.

down \$30m from his original full-year forecast to \$245m, and Mr Robert Law of Shearson Lehman has cut his figure by no less than \$50m to \$230m.

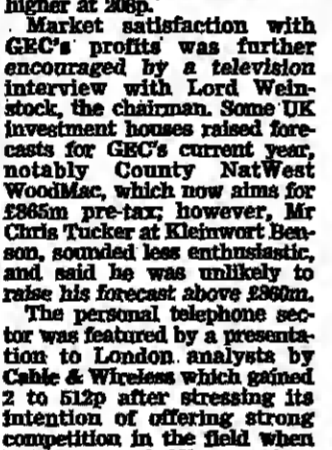
Acclaim for BPB BPB Industries received acclaim yesterday not only for resisting the prevailing weak equity tone, but also for trading actively but also for resisting the prevailing weak equity tone.

The accompanying statement from the group was encouraging and caused a further revision of analysts' predictions. Those who had cut too far for the current year moved back up while others increasingly aggressive buyers in the next nine months.

Among the many new, lower, estimates, Mr John Troy of Nomura Research has come



Equity Shares Traded Turnover by volume (million)



NEW HIGHS AND LOWS FOR 1989 Table listing various companies and their high and low values for the year 1989.

concerns: British Aerospace has 20 per cent and builds the wings.

Opinion was sharply divided over what the allocations meant for Lassa. Mr Morris said it had done reasonably well, if unexceptionally so.

Among lower Stores stocks two were notable for their gains: Burton, up 8 at 228p and still benefitting from a large short position in the market.

Profit-taking hit Bataera hard after the recent advances, the shares slipping 11 to 245p; one leading securities house was advising clients to 'top-slice'.

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FINANCIAL TIMES STOCK INDICES

Table showing various stock indices including Government Secs, Fixed Interest, Ordinary, Gold Mines, and S.E. Activity indices.

TRADING VOLUME IN MAJOR STOCKS

Table listing trading volume for major stocks such as Anglo, BHP, British Airways, etc.

One market observer was intrigued to discover that the three large trades seen during Wednesday's session were not on the following day's Official List from the Stock Exchange.

APPOINTMENTS

600 Group managing director

Following the resignation of Mr Noel Davies to take up an appointment with VSEL Consortium, the 600 GROUP is appointing Mr Brian A Carter as group managing director from September 1.

ARBUTHNOT LATHAM

ARBUTHNOT LATHAM has appointed Mr Adrian Bradshaw (above) to the main board as executive director responsible for the corporate finance department.

Crosser and Mr Timothy G. Abell have retired as non-executive directors.

RENTOKIL GROUP has appointed Mr Michael Holmes as regional managing director of Property Care.

CIBA-GEIGY PLC is making the following appointments on July 1: Mr D.N.H. James and Mr E.G. Kerr have been appointed to the board.

Mr Barrie Whippo has been appointed managing director of TIPHOOK FINANCIAL SERVICES.

Mr Brian Redhead has been appointed to succeed Mr Steve Castle as sales and marketing director of HARMO INDUSTRIES on August 1.

Mr Miles J. Rivett-Carnac, chairman of Baring Investment Management Holdings, has become chairman of BARING BROTHERS (GUERNSEY) following the retirement of Mr Robin Dent.

The MAN Group - Partners for Advanced Technology

Advertisement for MAN Group featuring logos for MAN, FERROSTAAL, MAN GHH, MAN ROLAND, MAN B&W, DWE, RENK, and GUTEHOFFNUNGSHUTE. Includes text about advanced technology and MAN Aktiengesellschaft.

FT UNIT TRUST INFORMATION SERVICE

Current Unit Trust Prices are available on FT Online. For more information on Unit Trust Codes see page 10 of the FT Online Handbook.

AUTHORISED UNIT TRUSTS

Unit Trust Code

Unit Trust Name

Unit Trust Description

Unit Trust Price

Unit Trust Change

Unit Trust Yield

Unit Trust Assets

Unit Trust Manager

Unit Trust Date

Unit Trust Status

Unit Trust Type

Unit Trust Sector

Unit Trust Risk

Unit Trust Rating

Unit Trust Index

Unit Trust Benchmark

Unit Trust Correlation

Unit Trust Beta

Unit Trust Alpha

Unit Trust Sharpe Ratio

Unit Trust Treynor Ratio

Unit Trust Information Ratio

Unit Trust Tracking Error

Unit Trust Volatility

Unit Trust Skewness

Unit Trust Kurtosis

Unit Trust Maximum Drawdown

Unit Trust Recovery Period

Unit Trust Turnover

Unit Trust Expense Ratio

Unit Trust Assets Under Management

Unit Trust Inception Date

Unit Trust Maturity Date

Unit Trust Redemption Frequency

Unit Trust Redemption Notice Period

Unit Trust Redemption Amount

Unit Trust Redemption Fee

Unit Trust Redemption Tax

Unit Trust Redemption Currency

Unit Trust Redemption Frequency

Unit Trust Redemption Notice Period

Unit Trust Redemption Amount

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Unit Trust Redemption Tax

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Unit Trust Redemption Amount

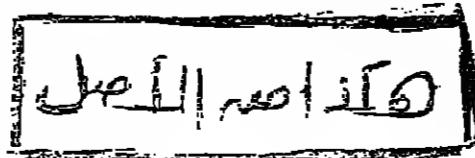
Unit Trust Redemption Fee

Unit Trust Redemption Tax

Unit Trust Redemption Currency

Main table containing unit trust information including names, prices, changes, yields, assets, managers, and dates. The table is organized into columns for different categories of unit trusts.

GUIDE TO UNIT TRUST PRICING. This section provides detailed information on how unit trust prices are calculated, including details on initial charges, cancellation fees, and the impact of market movements on unit prices.



FT UNIT TRUST INFORMATION SERVICE

Current Unit Trust Prices are available on FT Citeline. To obtain your free Unit Trust Code Booklet ring the FT Citeline help desk on 01-925-2128

Main table containing unit trust information with columns for Name, Price, Yield, and other financial metrics. Includes sections for various fund categories like Equity, Bond, and Money Market.

OFFSHORE AND OVERSEAS

Table listing offshore and overseas unit trusts, including details on fund names, prices, and yields.

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FT UNIT TRUST INFORMATION SERVICE

Table of FT Unit Trust Information Service, listing various unit trusts such as 'Dunlop Group', 'Fidelity International', 'Health 2000 Limited', 'Hill General Investment Services', 'Mitsubishi Bank', 'NIM British International Limited', 'Offshore Insurance', and 'Other Offshore Funds'.

LONDON SHARE SERVICE

Table of London Share Service, including sections for 'BRITISH FUNDS', 'BRITISH FUNDS - Contd', 'COMMONWEALTH & AFRICAN LOANS', 'AMERICANS', 'CORPORATION LOANS', 'Money Market Bank Accounts', and 'Money Market Trust Funds'.

LONDON SHARE SERVICE

Latest Share Prices are available on FT Cityline. To obtain your free Share Code Booklet ring the FT Cityline help desk on 01-925-2133

AMERICANS - Contd

Table listing American companies such as Dana Corp, Eastman Kodak, and General Electric, with columns for company name, price, and other financial metrics.

BUILDING, TIMBER, ROADS - Contd

Table listing companies in the building, timber, and roads sectors, including various construction and materials firms.

DRAPERY AND STORES - Contd

Table listing companies in the drapery and stores sector, including retail and manufacturing firms.

ENGINEERING

Table listing engineering companies, including firms involved in mechanical, electrical, and civil engineering.

INDUSTRIALS (Miscel.) - Contd

Table listing miscellaneous industrial companies, including a wide range of manufacturing and service firms.

INDUSTRIALS (Miscel.) - Contd

Table listing miscellaneous industrial companies, continuing the list from the previous section.

CANADIANS

Table listing Canadian companies, including major corporations and smaller regional firms.

ELECTRICALS

Table listing electrical companies, including manufacturers of electrical equipment and services.

FOOD, GROCERIES, ETC

Table listing companies in the food, groceries, and related sectors, including retailers and manufacturers.

INDUSTRIALS (Miscel.)

Table listing miscellaneous industrial companies, including various manufacturing and service firms.

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Table listing miscellaneous industrial companies, continuing the list from the previous section.

INDUSTRIALS (Miscel.)

Table listing miscellaneous industrial companies, continuing the list from the previous section.

BANKS, HP & LEASING

Table listing banks, hire purchase, and leasing companies, including major financial institutions.

CHEMICALS, PLASTICS

Table listing companies in the chemicals and plastics sectors, including manufacturers of various materials.

DRAPERY AND STORES

Table listing companies in the drapery and stores sector, including retail and manufacturing firms.

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Table listing miscellaneous industrial companies, continuing the list from the previous section.

BEERS, WINES & SPIRITS

Table listing companies in the beer, wine, and spirits sectors, including major beverage manufacturers.

DRAPERY AND STORES

Table listing companies in the drapery and stores sector, including retail and manufacturing firms.

INDUSTRIALS (Miscel.)

Table listing miscellaneous industrial companies, including various manufacturing and service firms.

HOTELS AND CATERERS

Table listing companies in the hotels and catering sectors, including major hospitality firms.

INDUSTRIALS (Miscel.)

Table listing miscellaneous industrial companies, including various manufacturing and service firms.

INSURANCES

Table listing insurance companies, including major providers of life, fire, and other insurance.

BUILDING, TIMBER, ROADS

Table listing companies in the building, timber, and roads sectors, including various construction and materials firms.

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LONDON SHARE SERVICE

Latest Share Prices are available on FT Cityline. To obtain your free Share Code Booklet ring the FT Cityline help desk on 01-225-2128

INSURANCES - Contd

Table listing insurance companies and their share prices, including Standard Life, Prudential, and others.

PAPER, PRINTING, ADVERTISING - Contd

Table listing companies in the paper, printing, and advertising sectors, such as Newsprint, Newsprint, and others.

TEXTILES

Table listing textile companies and their share prices.

TRUSTS, FINANCE, LAND - Contd

Table listing trusts, finance, and land companies, including various investment trusts.

OIL AND GAS - Contd

Table listing oil and gas companies and their share prices.

MINES - Contd

Table listing mining companies and their share prices.

LEISURE

Table listing leisure companies and their share prices.

PROPERTY

Table listing property companies and their share prices.

TOBACCO

Table listing tobacco companies and their share prices.

TRUSTS, FINANCE, LAND

Table listing trusts, finance, and land companies.

OVERSEAS TRADERS

Table listing overseas trading companies and their share prices.

MISCELLANEOUS

Table listing miscellaneous companies and their share prices.

MOTORS, AIRCRAFT TRADES

Table listing motor and aircraft trade companies and their share prices.

PROPERTY

Table listing property companies and their share prices.

TRUSTS, FINANCE, LAND

Table listing trusts, finance, and land companies.

TRUSTS, FINANCE, LAND

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PLANTATIONS

Table listing plantation companies and their share prices.

THIRD MARKET

Table listing third market companies and their share prices.

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REGIONAL & IRISH STOCKS

Table listing regional and Irish stocks, including companies like Anglo Irish Bank and others.

TRADITIONAL OPTIONS

Table listing traditional options with 3-month call rates for various companies.

This service is available to every company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £200 per annum for each sector.

WORLD STOCK MARKETS

Table of stock market data for various countries including Australia, Canada, France, Germany, Italy, Japan, and the UK. Columns include stock names, prices, and changes.

Table of stock market data for various countries including Australia, Canada, France, Germany, Italy, Japan, and the UK. Columns include stock names, prices, and changes.

Table of stock market data for Canada, including Toronto and Montreal markets. Columns include stock names, prices, and changes.

Table of stock market data for various countries including Australia, Canada, France, Germany, Italy, Japan, and the UK. Columns include stock names, prices, and changes.

Table of stock market data for various countries including Australia, Canada, France, Germany, Italy, Japan, and the UK. Columns include stock names, prices, and changes.

TOKYO - Most Active Stocks

Table of stock market data for Tokyo, listing the most active stocks and their prices.

ON BUSINESS IN LUXEMBOURG?

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Advertisement for Financial Times subscriptions, featuring the headline '12 issues free when you first subscribe to the Financial Times' and contact information for Wilf Brüssel.

NYSE COMPOSITE PRICES

Table of NYSE Composite Prices listing various stocks with columns for High, Low, and Close prices. Includes a note about dividend dates and a table of AMEX Composite Prices at the bottom left.

OVER-THE-COUNTER

Missing national market, 3pm prices June 29

Table of Over-the-Counter prices listing various stocks with columns for Bid, Ask, and Last prices. Includes a table of AMEX Composite Prices at the bottom left.

AMEX COMPOSITE PRICES

Table of AMEX Composite Prices listing various stocks with columns for Bid, Ask, and Last prices.



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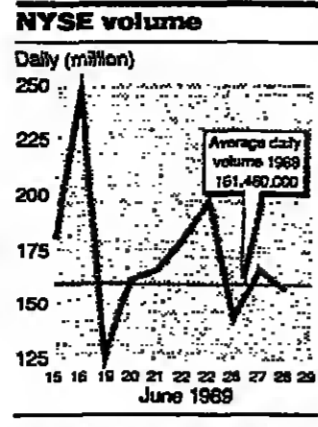
Advertisement for HWY REGENCY BRUSSELS, featuring the text 'It's attention to detail' and 'Complimentary copies of the Financial Times are available for business guests staying at the Hotel ReGENCY in Brussels.'

AMERICA

Bundesbank move undermines Dow

Wall Street
 NERVOUSNESS about the market's outlook in the wake of the West German Bundesbank's increase in key interest rates pushed stocks sharply lower in active, midday trading on Wall Street yesterday, writes Karen Zagor in New York.
 At 3pm the Dow Jones Industrial Average was down 40.87 points at 2,463.77.
 Volume was moderately heavy. Declining issues outpaced those advancing by more than four to one.
 Stock index futures were also sharply lower in brisk trading. At 1.30pm the Standard & Poor's 500 index was down 4.62 points at 321.19.
 The fall in equities came in spite of a recovery in the debt market, which saw the Treasury's bellwether 30-year bond up 1/8% to 105 1/8 in mid-session trading, yielding 8.09 per cent. The Federal Reserve arranged overnight system repurchase agreements when Fed funds were at 9% per cent.
 The dollar also regained its

early losses on the news that seven European nations had raised their rates. It traded at Y143.45 and DM1.9615 at midday, from 142.00 and DM1.9605 late Wednesday in New York. The US currency has benefited from continuing weakness of the yen because of uncertainty over the future of the Japanese Prime Minister.
 Crude oil futures rose in active trading on the New York Mercantile Exchange. August crude was trading up 42 cents at \$20.45 a barrel from an opening level of \$19.95. September was up 20 cents at \$19.50 a barrel.
 Nevertheless, oil company issues declined, in part as a result of profit-taking after the big gains of the previous two days. Phillips Petroleum fell 1/4% to \$22 1/4 in busy trading. Occidental Petroleum was down 3/4% at \$27 1/4 and Chevron fell 1/4% to \$54 1/4.
 Shares in Banc One, the Ohio-based commercial bank, defied the downward tone in the market to trade up 3/4% at \$33 1/4 after the company announced the acquisition of the failed MCorp banks from the Federal Deposit Insurance



Corporation. The issue was the most active in morning trading on the New York Stock Exchange.
 IBM was down 1 1/4% at \$112 1/4 amid growing concern that a strong US currency would cut into the company's profits. About half of IBM's sales revenue is generated abroad.
 Similar worries affected shares of Coca-Cola, which dropped 3/4% to \$44 1/4, Exxon, which lost 1/2% to \$44 1/4, and Ford, which fell 1/4% to \$43 1/4. Paramount dropped 1/4% to

\$61 1/4 after announcing that it had found the extra financing to raise its bid for Time Inc to \$200 a share from \$175 a share. Time was down 1 1/4% at \$153 1/4.
 Kansas City Southern Industries kept 3/4% to \$44 1/4 after a Federal appeals court overturned a ruling that would have resulted in the company paying \$84.2m in damages to South Dakotas in an anti-trust dispute.
 Amdahl, the manufacturer of large computer systems, plunged 3/4% to \$16 1/4 on the American Stock Exchange. The company expects second quarter earnings to drop by between 25 and 30 per cent in spite of an expected 20 per cent increase in revenue.

Canada
 A LISTLESS bond market and a sell-off in New York kept stocks in Toronto lower at mid-session. Investors also appeared to be re-evaluating take positions before the long holiday weekend.
 The composite index fell 14.5 to 3,732.1 with declines leading advanced by 28 to 228 on volume of 17m shares.

Long road back to dizzy heights

Alison Maitland on how far the world has come since the crash

AFTER a buoyant first half year, most of the world's equity markets have now recovered to the levels they were at just before the global crash on October 19, 1987.
 A significant number, from giant Japan to tiny Austria, are moreover enjoying the rarefied atmosphere in the regions above their pre-crash peaks. But the majority still have some way to go before regaining those dizzy heights, and a fairly large minority are still struggling on the lower slopes to recoup the ground lost in the crash 20 months ago.
 Although the US fell sharply in the week before October 19, most worldwide losses were concentrated on that and subsequent days, so the "pre-crash level" is defined as the close of business on October 16, 1987.
 The worst stragglers are New Zealand, Hong Kong and South Africa. The New Zealand Barclays index (close June 28) is still 47 per cent below its level on October 16, 1987, and 51 per cent below its all-time peak of 3,968.89, reached on September 18, 1987.
 Even two of the bigger mar-

RELATIVE PERFORMANCE
 % change on Oct 16 1987 vs pre-crash level
 % change on Oct 16 1987 vs all-time peak

Country (local index)	% change on Oct 16 1987 vs pre-crash level	% change on Oct 16 1987 vs all-time peak
Australia	-29	+34
Austria	+54	+23
Belgium	+27	+13
Canada	+5	-8
Denmark	+60	+34
Finland	+19	+15
France	+32	+8
West Germany	+0.7	-18
Hong Kong	-41	-43
Ireland	-1	-6
Italy	-1	-29
Japan	+28	+25
Malaysia	+8	-6
Mexico	+18	-8.8
Netherlands	+14	-1.5
New Zealand	-47	-51
Norway	+12	+8
South Africa	-34	-99
Spain	+1	-5
Sweden	+24	+29
Switzerland	+6	+2
UK	-5	-9
USA	+15	-3
World*	+10	+3

*Based on June 28, 1989
 *Percentage change before fiscal correction

West Germany and Italy, which peaked in April and May 1986 before settling into long-term bear markets, are finally back close to their pre-crash levels but are, respectively, 18 per cent and 29 per cent below their all-time highs.
 The US and Canada are also in this midway stage, having improved on their October 16, 1987, levels. The S&P Composite index is just 3 per cent from its all-time peak of 336.77 on August 25, 1987, and the Toronto Composite is 8 per cent below its high of 4,112.90 on August 13 that year.
 The local currency FT-Actuaries World Index has risen 3.4 per cent above its previous record of August 1987, helped by the strength of Japan, where the Nikkei average has climbed 26 per cent from its October 14, 1987, peak of 26,646.43.
 Mexico provides a vivid illustration of the further plunged down the crash. It has outperformed most markets this year by soaring nearly 80 per cent, yet has still not quite returned to its all-time high reached on October 7, 1987.

Nikkei suffers further fall as political clouds gather

Tokyo
 ANOTHER fall in the Japanese market came in thin trading as political uncertainty increased, writes Yuriko Mita in Tokyo.
 The market opened lower as investors remained cautious after the Nikkei average's largest plunge of the year during the Wednesday session, when it fell more than 500 points before regaining some ground towards the close.
 Although the market received moderate support yesterday from small lot purchases of high-priced stocks, the Nikkei closed down 289.29 at 32,956.31, after drifting between a high of 33,223.03 and a low of 32,922.50.
 Falls outnumbered gains by 519 to 397, while 165 issues remained unchanged. Volume was a low 42m shares after Wednesday's 612m.
 The Topix index of all listed shares fell 12.24 to 2,453.99. But in London the ISE/Nikkei 50 index rose 4.06 to 1,949.78.
 Causes were political clouds in the politically unstable climate brought about by rumours of Prime Minister Souda's possible resignation on Wednesday. The ruling Liberal Democratic Party is expected to suffer substantial losses in the forthcoming Tokyo Metropolitan Assembly election, and one analyst said many investors would stay on the sidelines until the results of the election were released.
 The yen's continuing weakness did not help the market. Although the Bank of Japan intervened in the currency

market, it could not stop the yen's decline.
 The buying that did occur was mainly of high-priced, small-capital issues such as pharmaceuticals, high technology companies and makers of office equipment, as investors attempted to gain quick profits. Yamamoto rose Y60 to Y3,590 and Taisho Pharmaceutical climbed to a high for the year of Y2,550, up Y140.
 Okamura, the largest manufacturer of office furniture, was the most actively traded stock, with 18m shares changing hands. In morning trading it rose to Y1,560, a record high, closing Y60 up at Y1,550.
 In the high technology sector, Kyocera spurted ahead Y280 to a year high of Y5,730, aided by the dollar's strength against the yen.
 The second most active issue was Sumitomo Metal, losing Y23 to Y785, with 6.6m shares changing hands. Most large-capital issues faced selling.
 Interest returned to Yamatae-Honeywell, the leading automation equipment maker, after investors had taken profits for three sessions. It was third most active stock, on a volume of 6.25m shares, and gained Y230 to Y3,570, attracting attention because of its low price-earnings ratio.
 The Osaka Stock Exchange average lost 119.18 to 32,380.67. Volume was 57.45m.

Roundup
 LEADING Asia Pacific markets all moved higher, with Singapore hitting a post-crash peak. SINGAPORE rose to a post-crash high, extending its run of gains to three consecutive sessions. The Straits Times industrial index added 6.85 to 1,315.29 in heavy turnover of 163m shares.
 AUSTRALIA was boosted by technical moves by institutions, although profit-taking clipped shares of its highs. The All Ordinaries index ended 5.7 higher at 1,524.7, after touching 1,530.6, on volume of 132m shares worth A\$264m.
 IEL, which faces a takeover bid from Goodman Fielder Watite, was active with 7.2m shares traded, finishing unchanged at A\$2.10. Goodman Fielder lost 3 cents to A\$2.11.
 Advances included BHP, due to announce results soon, which rose 10 cents to A\$3.84.
 Bell Resources fell 17 cents, or 19 per cent, to 73 cents. Earlier this morning the Australian Stock Exchange cleared its purchase of the brewing interests of its parent, Bond Corp, which eased 2 cents to 90 cents.
 HONG KONG was lifted by bargain hunters and technical moves before the end of the first half of the year. The latter adjustments particularly boosted stocks included in the Hang Seng index. The index moved up 30.27 to 2,275.32 on modest turnover of HK\$570m.

Interest rate rises send out nervous ripples

AROUND interest rate rises in Europe left many bourses weaker, although generally off their lows. Frankfurt emerged unscathed, however, writes Our Markets Staff.
 FRANKFURT took the largely unexpected interest rate rise by the Bundesbank in fairly positive fashion, losing early gains but recovering to finish slightly higher and holding steady in the after-market.
 News of the 1/2 point rise in the Lombard and discount rates came after the close, but fears that it was in the offing grew during the session. "Mr Pierre Bergévoxy (French Finance Minister) let the cat out of the bag that the European banks were consulting with the Bundesbank on the little bit way that something was afoot," said an analyst.
 Nevertheless, the DAX index finished 0.54 above the previous day's level at 1,451.93 after climbing to 1,497.26. The mid-session FAZ added 0.61 to a post-crash high of 618.4. Turnover was active at DM6.54bn.
 The market appeared to be taking a longer-term view of the rates increase, regarding any moves to support the D-Mark and reduce inflationary pressures as positive.
 In Johannesburg, where Deutsche Bank, with DM885m worth of shares traded, it closed DM13.50 higher at DM60.50, boosted by speculation that it will raise its dividend. The bank also reported first quarter profits up 14 per cent and has been holding analysts' meetings.
 Daimler, which announced a one-for-10 rights issue on Wednesday, lost DM12.50 to DM706.50 after going ex a DM12 dividend.
 PARIS ended sharply down but off its lows after being hit

by a series of blows on the economic front. A much wider trade deficit in May, reaching FF6.6bn after FF3.7bn in April, sent the market straight down at the opening, but it stabilised and was picking up by mid-morning.
 Then came news that French interest rates would follow a rise in West German ones, which duly happened, catching traders while they were at lunch. Further falls in the afternoon were eased by some late bargain-hunting.
 The CMC 50 index lost 8.16, or 1.6 per cent, to 492.86, and the CAC 40 was 20.41 lower at 1,731.99. The opening CAC General shed 6.99 to 481.47. Turnover was estimated between FF2.2m and FF2.7m.
 Générale des Eaux, the diversified utility, rose FF50 to FF2,002 against the trend on large volume of 44,000 shares following its annual general meeting at which it raised its forecast for profits growth this year to 20 per cent. Institutions are reported to have been buying aggressively.
 Peugeot disappointed by losing FF10 to FF1.75 when some people had expected it to pick up after positive news from its annual general meeting on Wednesday.
 MILAN moved higher again in a session marked by very little news in volume estimated at a moderate L200m. One analyst said the raising of interest rates elsewhere in Europe was likely to calm the market down a bit. The Comit index picked up 2.51 to 59.41.
 The insurance sector provided much of the interest, with Generali gaining L730 to L43,130, reaching L43,200 after the close, and RAS, which reported slightly lower annual profits unchanged at L28,350, but rising to L28,600 after the close.
 AMSTERDAM closed at the day's lows after the Dutch central bank announced it would raise interest rates. The CBS tendency index fell 2.3 to 188.0.
 Amey, the insurer, shed 70 cents to \$4.50. The Government said it planned to remove

curbs on banks and insurers which bar them from investing in each other's equity and limit their rights to co-operate with competitors abroad. Amey plans to co-operate with VSB, the Dutch bank, and the two have swapped some shares.
 ZURICH eased slightly on profit-taking, with news that the Swiss National Bank had raised the discount rate by 1 point coming after the close. The Credit Suisse index slipped 1.2 to 698.2.
 MADRID ended little changed, with some interest in banking and construction stocks. The general index was 0.09 ahead at 312.05 in turnover estimated at \$90m.
 Telefonica shed 1 percentage point to 200.5 per cent of par but was marked up in New York trading after announcing a 13 per cent rise in first five months' profit.
 Once, the national association for the blind which is also the country's largest private institutional investor, bought oil group Repsol's shares, pushing them up 13.75 to 444.25. The Kuwait Investment Office is also reported to have been a recent buyer.
 BRUSSELS eased under pressure from the European interest rate rises. The cash market index fell 9.95 to 6,110.99.
 There was further speculation about stake-holding at Raffinerie Firiemontoise, the foods and sugar group, which closed unchanged at BF2,120 as a heavy 43,000 shares changed hands.
 STOCKHOLM finished a slack trading day slightly lower. The ABAX-viden General index fell 5.7 to 1,225.2.
 Foreign buyers pushed free B shares in Ericsson up SKr3 to SKr582. Ericsson shares accounted for one third of the day's volume of SKr326m.
 COPENHAGEN was little changed. Expectation of good results from Norrisk Pjer helped lift it DKr2 to DKr271.
 OSLO edged lower after the rate rises in Europe. The all-share index fell 5.09 to 480.67.

IFC EMERGING MARKETS INDICES

Market	No. of stocks	PRICE		TOTAL RETURN	
		May 1989	% Change on April	May 1989	% Change on April
Latin America	(158)	244.55	-0.2	335.51	1.9
Argentina	(24)	204.46	31.2	244.31	32.2
Brazil	(56)	185.32	-8.5	206.43	-4.2
Chile	(25)	553.45	2.1	289.96	3.6
Mexico	(53)	439.79	13.4	582.27	14.6
Asia	(204)	439.48	15.8	547.55	18.0
Korea	(61)	481.08	-2.1	809.18	-1.8
Malaysia	(62)	131.37	2.3	194.69	2.5
Taiwan, China	(62)	1,350.26	28.8	1,431.74	23.7
Thailand	(18)	280.47	7.8	503.14	7.7

Source: International Finance Corporation. Base date: Dec 31, 1984.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	WEDNESDAY JUNE 28 1989				TUESDAY JUNE 27 1989				DOLLAR INDEX		
	US Dollar Index	Day's Change %	Point Starting Index	Local Currency Index	US Dollar Index	Day's Change % local currency	Point Starting Index	Local Currency Index	1989 High	Year Ago (approx)	
Australia (94)	131.45	-0.4	125.25	115.41	+0.8	5.11	131.98	124.97	114.53	137.12	128.28
Austria (19)	118.67	-1.2	114.02	122.05	-0.4	2.22	121.08	114.87	122.58	124.76	82.84
Belgium (83)	129.62	-0.5	122.56	130.53	+0.0	4.19	129.29	122.45	130.57	137.10	126.59
Canada (123)	140.69	-0.3	134.05	121.89	-0.1	3.28	141.17	133.69	122.08	141.80	124.67
Denmark (38)	197.29	+0.0	187.98	205.14	+0.8	1.64	197.21	186.77	203.99	197.29	185.36
Finland (29)	138.51	-0.5	132.93	128.95	+0.1	1.63	140.23	132.80	128.78	159.18	125.81
France (128)	119.81	-0.8	114.15	128.28	-0.3	3.03	120.78	114.36	125.64	122.79	94.72
West Germany (100)	89.51	+0.6	85.29	91.42	+1.1	2.22	89.96	84.25	90.46	90.72	79.59
Hong Kong (49)	180.74	+0.7	172.52	92.96	+0.2	3.76	177.15	167.77	189.27	220.11	142.22
Italy (97)	83.72	+0.2	79.77	88.80	+0.7	2.50	88.59	79.09	88.19	86.88	74.97
Japan (456)	173.89	-1.9	165.59	182.12	+0.7	0.51	177.15	167.77	189.27	220.11	142.22
Malaysia (13)	180.74	+0.7	172.52	92.96	+0.2	3.76	177.15	167.77	189.27	220.11	142.22
Mexico (115)	261.98	-0.8	249.62	713.21	-0.3	0.71	264.03	250.05	718.95	271.98	153.32
Netherlands (42)	120.55	-0.3	114.88	121.78	+0.2	4.25	120.89	114.48	121.52	122.22	110.63
New Zealand (24)	58.48	-0.1	53.34	61.36	0.5	6.05	58.58	53.05	60.97	70.02	62.64
Norway (26)	160.59	+0.5	153.01	144.90	+0.7	1.91	159.79	151.33	143.92	151.98	124.67
South Africa (50)	151.35	+2.0	144.21	131.54	-0.8	4.07	148.39	140.33	122.86	151.35	115.39
Singapore (26)	148.28	-0.1	139.17	104.50	+0.4	3.51	148.43	140.57	138.49	143.14	151.02
Spain (43)	148.28	-0.1	139.17	104.50	+0.4	3.51	148.43	140.57	138.49	143.14	151.02
Sweden (35)	79.20	-0.2	75.84	83.35	+0.1	2.30	79.79	75.96	83.30	81.29	67.81
Switzerland (67)	186.15	-0.4	184.98	134.98	+0.2	4.33	182.28	134.74	134.74	133.33	133.28
United Kingdom (314)	141.87	-0.7	128.83	132.80	-0.7	3.38	133.83	128.74	133.83	133.83	112.13
USA (655)	132.90	-0.7	128.83	132.80	-0.7	3.38	133.83	128.74	133.83	133.83	112.13
Europe (1005)	118.87	-0.2	113.26	117.71	+0.3	3.48	118.15	112.84	117.38	121.70	112.63
Nordic (125)	181.36	+0.0	153.74	153.02	-0.8	0.74	172.33	163.21	153.99	194.72	160.44
Pacific Basin (67)	148.28	-1.3	142.19	138.83	-0.3	1.63	151.13	143.13	139.22	141.58	138.33
Euro-Pacific (1673)	133.27	-0.7	128.99	132.22	-0.7	3.37	134.17	127.67	133.10	134.17	127.79
North America (678)	133.27	-0.7	128.99	132.22	-0.7	3.37	134.17	127.67	133.10	134.17	127.79
Europe Ex. UK (691)	104.41	-0.1	89.48	107.04	+0.4	2.84	104.49	88.35	105.53	105.57	88.84
Pacific Ex. Japan (219)	114.59	-1.2	111.89	138.40	-0.3	1.71	130.93	142.84	133.86	152.77	141.49
World Ex. US (1875)	149.02	-1.1	135.83	136.69	-0.5	2.07	143.91	138.29	137.38	148.04	136.58
World Ex. UK (2116)	142.35	-1.0	135.51	138.54	-0.4	2.28	143.73	136.11	137.15	143.55	136.67
World Ex. So. Af. (2370)	142.35	-1.0	135.51	138.54	-0.4	2.28	143.73	136.11	137.15	143.55	136.67
World Ex. Japan (1975)	127.41	-0.5	121.40	126.18	-0.3	3.48	128.01	121.23	126.81	144.51	109.81
The World Index (2430)	142.27	-1.0	135.96	138.50	-0.4	2.27	143.75	138.14	137.11	143.51	136.68

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